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**ECONOMIC STRUCTURE
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Economic Structure OF FREE INDIA

by

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INDIAN BOOK COMPANY LTD.

37, NISBET ROAD, LAHORE

FIRST IMPRESSION

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Printed by Mirza Mohammad Sadiq at the Ribon Printing Press
Bull Road, Lahore and published by Dina Nath, M A , for Indian
Book Company Ltd., 37, Nisbet Road, Lahore

PREFACE

A new economy, a new discipline and a Centre strong enough to establish the one and to enforce the other—this is the main idea of the economic structure of free India presented in this book.

Incredible as it may seem, we can still have such a Centre, if Congressmen, in the larger interests of the country and the masses, cease to think of independence in terms of the divine right of the majority.

The book opens with a discussion of *charkha* economics. *Charkha* economics is one of the principal causes of political confusion in our country. The author has consistently held the same view of the *charkha* for many years, and expressed it in numerous articles contributed to the *Tribune* of Lahore and elsewhere. If consistency is a virtue of fools, he may certainly claim to be one.

I am greatly indebted to the *Tribune* for permission to use some of these articles, and to Messrs. Chand and Co., Delhi, for permission to reproduce a graph which appears in my *Money and Banking*.

BRIJ NARAIN

Lahore :
11, Lajpat Street,
Nicholson Road,
October 26, 1946.

ARGUMENT

Chapter I.—CHARKHA ECONOMICS

Congressmen, according to Mahatma Gandhi, are not of one mind on the contents of Independence. We are compelled to take note of this disagreement as it concerns not only our future political condition but also the economic structure of free India. What is to be the basis of the economic structure of free India, the *charkha* or the machine? If we choose the *charkha*, then we do not want an all-powerful planning Centre

There is no place in Mahatma Gandhi's economic system for armaments, heavy industry, machine-making, power-development, or, in short, for anything which may be interpreted as large-scale industrialization on an all-India basis. The economic structure of free India will be based on self-sustained village republics, each village relying on *ahimsa* to defend itself against the whole world.

Mahatma Gandhi ignores the struggle for existence. The idea that non-violence can defend a country against foreign aggression, or maintain law and order within the country, is ridiculous. Communistic societies, deriving their inspiration from religion, have flourished in the United States, but they enjoyed the protection of the Government of the country.

To maintain her independence, India must arm. If this is granted, the economic structure of free India is not a debatable question. The *charkha* cannot produce modern armaments. It has been estimated that armament expenditures affect 60 per cent of industry.

Further, a *charkha* economy would be constantly exposed to the threat of famine. Famine is a disease of all agricultural countries. Petty's Law states an important condition of economic progress: with the flow of labour from

Primary occupations (e.g., agriculture) to Tertiary occupations (commerce, transport and services), the wealth and income of a country increase. This change can be brought about by a rapid industrialization of India.

Chapter II.—LAISSEZ FAIRE

Charkha economic having been discarded, we have still to choose our economic system. There are two alternatives: *laissez faire* and a planned economy.

Laissez faire means 'let alone', or non-intervention by the State in economic matters. In a *laissez faire* regime the Sovereign has three duties only: Defence, Law and Order, and the erection and maintenance of certain works of public utility which private enterprise would neglect. The consumer has the right to buy in the cheapest market, which may be a foreign country.

Laissez faire works well, under certain assumptions. Even universal free trade would work extremely well, if we could assume perfect mobility of labour and capital between different countries. *Laissez faire* fails completely if its assumptions are not true.

An industrial country works with a good deal of its capital in the fixed form (e.g., machines). The size of the industrial unit is large, and it tends to increase. The tendency toward monopoly is inherent in capitalism. A monopolist is primarily interested in his own good, not in the welfare of the consumer. When monopolies or semi-monopolies, whether of labour or capital, arise, free competition as the regulator of economic life comes to an end. Perfect, not 'imperfect' competition is the basis of *laissez faire*. On account of this transformation of competition, the theory of *laissez faire* is not a reliable guide to economic practice in the world of to-day.

Crises, or trade oscillations, seem to be inherent in the capitalist system. They recur in a cycle. The worst of these crises was the Great Depression of 1929-32, which disintegrated the whole international structure of economic

life. An intensive study of crises, their causes and remedies, has been made in recent years. There is general agreement among economists that trade oscillations cannot be avoided without the regulation of both the volume and the direction of investment by the State. It is also agreed that in a depression the State may directly invest money in all kinds of public works, productive and unproductive, to bring about conditions of 'full employment'.

The old conditions which inspired *laissez faire* have passed away. *Laissez faire* is dead.

Chapter III.—PLANNING: CONTROL OF PRIVATE ENTERPRISE

We have rejected *charkha* economics. *Laissez faire* is dead. The choice now lies between two kinds of planning: planning with State-owned land and capital, and planning with privately owned land and capital

Soviet Russia is an example of a planned economy based on State-ownership of all means of production. Shall we follow Russia's example?

A social revolution may be desirable for its own sake. It is not necessary for setting up a planned economy.

Is it not possible to regulate the production and distribution of food without nationalizing agricultural land and tools and implements owned by peasants? This is being done.

Agricultural planning can increase production and lower costs by developing co-operative farming with modern methods. Price-control and rationing can stabilize agricultural incomes and prices, and insure an equitable distribution of supplies. Taxation can limit the share of the non-worker, or even abolish it altogether. For agricultural progress and planning the nationalization of land is not essential.

The control of industrial output and prices is rendered easier by the growth of large-scale production. Where

necessary, rationing may be introduced, retained or developed. Wages, profits and interest can be stabilized at desired levels. Through exchange control, integrated with trade controls, imports and exports can be regulated.

The capitalist may be permitted to own his capital, but he can be forced to work in the interests of the community under conditions rigidly determined by Government. For industrial planning, again, the nationalization of capital is not essential.

Central banking machinery already exists for the control of short-term credit, but the whole banking system is developing haphazardly, without plan. The result is that while some places are 'over-banked', many more places are 'under-banked'. A planned economy such as we contemplate will also organize the supply of long-term capital through the creation of suitable institutions.

Chapter IV.—PLANNING: THE ROLE OF CREDIT MONEY

There is 'created money' in the Bombay Plan, for which reason the Bombay Plan has been described as 'reconstruction through inflation'. One thing must be clearly understood—India cannot be rapidly industrialized without 'created money'. The enormous sums required for building up heavy industry and for other purposes cannot be obtained by taxation and internal borrowing. Probably we may be able to raise large loans abroad. But we have only recently won our freedom from the slavery of foreign capital. Russia carried through her gigantic plans without borrowing a pie of foreign money. So can we.

Under certain conditions 'created money' may be used for reconstruction without the risk of inflation.

A mere increase in the means of payment does not lead to a rise of prices. Prices rise when the demand for goods increases more rapidly than the supply. There was inflation during the war in the sense that Government expenditure diverted more and more resources to war-employments. There was a considerable increase in production—but for

purposes of destruction. Even in such a case the rise of prices may be kept under control by rationing, as was done in U.S.A. and the United Kingdom. The shortage may be equally shared by all.

We are concerned with peace time reconstruction; the increase in purchasing power will be balanced, after an interval, short or long, by an increase in the supply of goods. During this interval production and consumption must be so regulated that prices do not rise.

'Created money' in a *regime* of free competition causes an uncontrolled rise of prices. A planned economy is different. Deductions from *laissez faire* are not valid for a planned economy.

The rouble, without any gold backing, built tractor works, automobile works, hundreds of thousands of collective farms and thousands of State farms in Russia. Stalin is proud of the Soviet rouble.

How did the paper rouble build the capital enterprises of Russia? Labour and raw material were there. 'Created money' set the productive forces of the country in motion. It will perform the same miracle in India, under proper economic controls.

Chapter V.—THE CABINET MISSION'S PROPOSALS AND THE BATTLE OF INTERPRETATIONS

We have now gained a fair idea of the economic structure needed for planning. For planning the Centre must enjoy the widest powers of taxation, borrowing and economic control. What is the nature of the Union Centre in the Cabinet Mission's Proposals?

The Centre will have responsibility for three subjects only, Foreign Affairs, Defence, and Communications. Responsibility for other subjects and all residuary powers will vest in the Units.

The Provinces will be free to form groups with executives and legislatures and each group will determine the provincial subjects to be taken in common.

Mahatma Gandhi's interpretation.—Mahatma Gandhi admits the possibility of adding to the Central list of subjects, but only by a majority vote of Muslims and non-Muslims separately. This is correct.

Maulana Azad's interpretation.—The Constituent Assembly can find ways and means of strengthening the Union Centre by conceding to the Centre sufficient powers to levy enough finances to support itself.

Pandit Nehru's interpretation.—The most remarkable interpretation is that given by Pandit Nehru, shortly after his election as Congress President. "External affairs inevitably include foreign trade policy". Therefore the Centre will have the power of levying customs duties. Reasoning similarly it may be shown that trade control includes exchange control, and Defence includes not only armaments but other key industries. The Union Centre of the Cabinet Mission can thus be expanded into a government of a completely unitary type.

The Congress seems determined to break up the Groups in the Cabinet Mission's scheme. That the Groups are an integral part of that scheme becomes clear when the significance of exchange, currency, credit and trade policies is fully understood. The allocation of subjects between the Centre and the Provinces in the Cabinet Mission's scheme has been integrated with the grouping arrangements. The collapse of the Groups would literally Balkanize our economic structure and create anarchy.

Chapter VI.—THE WAY OUT

"From 1922 onwards the number of serious Hindu-Muslim riots rose steeply" (Coupland). Facts confirm this statement. What is the explanation of increasing Hindu-Muslim tension?

The present situation is entirely the product of an experiment tried by the British Government—the introduction of democracy in India. Democracy started the race for power between Hindus and Musalmans. It embittered

Hindu-Muslim relations and with constitutional progress the tension increased. The correlation between rioting and constitutional advance is almost perfect.

Parliamentary government works by the interaction of several essential factors, none of which can be said to exist in India today, or to have existed at any time in the past.

The vicious principle of majority rule explains the mixing up of religion with politics. The biggest political party is that which has succeeded in arousing mass consciousness in its favour. In our country the religious appeal is the only mass appeal. Mahatma Gandhi beat the drum of *Ahimsa*, and the Muslim League that of Islam. The object in both cases was to capture power.

A spirit of compromise on both sides might have restrained communal frenzy. But the Congress insisted on the divine right of the majority to rule and, in 1937, called upon the League to surrender unconditionally. That literally put Pakistan 'on the map.'

The situation is fraught with the utmost danger. British troops helped in the restoration of order in Calcutta. If wide-spread disturbances occur, reliance will have to be placed on British bayonets for protection. Pandit Nehru's Government may thus survive the League's threat, but is that any solution of the Indian problem? Is that independence?

There is an easy way out of the muddle, but it is not a democratic way.

In August 1942 the Congress, for the sake of independence, made an offer to the League to assume all real power.

For the sake of freedom and a Planning Centre, the offer may be repeated. The Muslims object to a Planning Centre on account of their fear that it will be dominated by a Hindu majority. This fear will be entirely removed if Mr. Jinnah is asked to plan, with a free hand in choosing his colleagues.

The offer to the Muslim League of full real power, which will give us the economic structure for planning, is not likely to be made

In these circumstances the Congress Socialists owe a duty to themselves and to the country. Why are they in the Congress? Congress socialism does not make sense. It is a contradiction in terms. They will never be able to capture Congress machinery. Mahatma Gandhi is a hard nut to crack. Subhas Bose was easily routed by Mahatma Gandhi in 1939. Where Subhas railed Jai Prakash cannot hope to succeed.

Labour's victory in Britain has a lesson for our socialists. The Man Who Won the War had no programme for peace. The Labour Party had a programme. Tory propoganda was barren. That is why Labour won.

The situation in India is not dissimilar. The Congress has no programme except that of grabbing power for its own sake, even with the aid of British bayonets. Placing the political and economic unity of India in the forefront of their programme, with Central Planning as an instrument for creating 'full employment', the socialists may begin their campaign as an independent political party.

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CHAPTER I

CHARKHA ECONOMICS

Freedom is within our grasp. Mr. Attlee has declared on behalf of the Labour Government that India may freely decide whether she wishes to remain within the British Commonwealth or to go out of it. The Constituent Assembly has been called by the Viceroy, but it is a sovereign body in the sense that if Muslims and Non-Muslims reach an agreement, they can really frame a constitution of independence. Again, if the Muslims and non-Muslims agree, a strong unitary type of government can be established at the Centre, a government which can plan our economic life on an all-India basis.

We stand at the threshold of great opportunities. And yet, at this great moment in the history of our country, there is no one who is not assailed by doubt and uncertainty. No one knows what is coming. First, there is a conflict between the Congress and the Muslim League, which has produced a series of deadlocks. Second, what concerns us directly in this chapter, there is conflict within the biggest political organisation of the country, the Congress, a conflict of ideologies, a conflict about the meaning or contents of independence. In the issue of *Harijan*, dated July 28, 1946, Mahatma Gandhi wrote :

“Congressmen themselves are not of one mind the contents of independence. I do not know

how many swear by non-violence or the *Charkha* or, believing in decentralization, regard the village as the nucleus. I know on the contrary that many would have India become a first-class military power and wish for India to have a strong Centre and build the whole structure round it."

This disagreement amongst Congressmen about the contents of independence is a serious matter. What is to be the basis of the economic structure of free India, the *charkha*, or the machine? If we choose the *charkha*, then we do not want an all-powerful Planning Centre. Mahatma Gandhi is an advocate of decentralization. But if we choose the machine, a strong Centre is indispensable, and the whole economic structure of free India will be built round it. Vital issues thus depend on the choice between the *charkha* and the machine.

Congressmen led the fight for independence under the banner of the *charkha*. The *charkha* is not merely the spinning wheel; it is, to many Congressmen, and particularly Mahatma Gandhi, a symbol of a new type of economic life and organization, of a new society based on truth and non-violence.

Mahatma Gandhi's views are well known, for he has consistently preached the gospel of the *charkha* for more than 25 years. Still, considering the importance of the subject, we may refresh our memory by a reference to Mahatma Gandhi's recent contributions to the *Harijan*.

The *Harijan*, dated May 5, 1946, contained an article by Mahatma Gandhi on 'Non-Violent

Volunteer Corps'. *Shantidals* will help in the maintenance of peace and order. In these non-violent bodies 'character or soul-force must mean everything' and physique take the second place. Members of such organizations must have 'implicit faith in God'. They should 'recite Ramnam ceaselessly.'

The same issue of the *Harijan* (p. 121) discusses *swaraj* through spinning. Mahatma Gandhi contemplates a time when 'textile mills, even if any were working, would have to rely on foreign countries for the sale of their produce'. When that time comes, 'there would be no need to tell any one to wear khadi for no cloth other than home-spun would be available.' Very probably the textile mills would disappear, for who wants textile mills which do not meet the home demand for cloth?

According to Mahatma Gandhi's conception, the economic structure of free India will be based on self-sustained village republics. Each village is to be 'capable of managing its affairs even to the extent of defending itself against the whole world.'

Is there room for machines in Mahatma Gandhi's ideal society? There will be no room for machines which displace human labour and lead to the concentration of power in a few hands. 'Every machine that helps every individual has a place.' The statement lacks definiteness, which Mahatma Gandhi realizes. For he says: "But I must confess that I have never sat down to think out what that machine can be. I have thought of Singer's sewing machine. But even that is per-

functory. I do not need it to fill in my picture."

There is no place in Mahatma Gandhi's economic system for armaments, heavy industry, machine-making, power-development, or in short for anything which may be interpreted as large-scale industrialization on an all-India basis. The inclusion of the Singer sewing machine, or other machines of the same type, in the picture will not alter the essential character of Mahatma Gandhi's ideal society. It is a society based on hand-power. It is a non-violent society.

Recently Louis Fischer met Mahatma Gandhi and the two discussed many things, including socialism and the Congress Socialists. In reply to Fischer's observation: 'You are a socialist and so are they', Mahatma Gandhi said:

'I am, they are not. I was a socialist before many of them were born. I carried conviction to a rabid socialist in Johannesburg, but that is neither here nor there. My claim will live when their socialism is dead'.

Mahatma Gandhi added later: 'I call myself a communist also'. This alarmed Louis Fischer, who protested:

'Oh don't. It is terrible for you to call yourself a communist'.

No, there is nothing terrible in that. Mahatma Gandhi may well and truly call himself a communist. But his communism is not the communism which breaks up a mighty Empire and creates a Workers' State out of the ruins. His communism is of the religious variety, which can bring together a few hundred, or possibly a few

thousand God-fearing individuals who have limited their wants severely, if not renounced material wealth completely, and who spend most of their time in praising the Lord. Mahatma Gandhi is no dreamer and his ideal society is not Utopian. But he is mistaken about the scale of his society.

Communitistic societies have flourished in the past. There is an old, long-forgotten book by Charles Nordhoff entitled *Communitistic Societies of the United States*. A brief account of some of these societies has been given in the Appendix to this chapter. It is of interest as showing the conditions under which Mahatma Gandhi's communists may live together in Ram Rajya.

Note first that the communism of these societies derived its force and inspiration from religion. Similarly, in Mahatma Gandhi's system, if God were detached from truth and non-violence, the whole system would collapse. Religion or theology is the main prop and support of the economic structure envisaged by Mahatma Gandhi.

Note in the second place that the members of these societies had cultivated a certain amount of indifference to worldly possessions. They had limited their wants. They were content with whatever was produced by the labour of their hands and were willing to live poorly. Individuals inspired by such a view of life may lead a happy and contented life under any economic system. But it is difficult to imagine that 400 millions of India, professing different faiths, will, within a reasonable period of time, be converted into 400 million saints! A person is a saint if he or she has

abandoned self and the world and spends most of his or her time in singing hymns and, let us add, spinning.

Finally note that these societies enjoyed the protection of the Government of the United States. They were incapable of defending themselves against the whole world.

DEFENCE

The question of defence is a fundamental question. If it can be shown that no village can defend itself, by means of truth and non-violence, against the whole world, nothing is left of a society based on truth and non-violence.

Let us take a village in the Lyallpur district of the Punjab, with the highest yields per acre, and transplant it with all its acres, water-supply and other natural resources, and all its cattle and cultivators, men, women and children, across the North-West frontier of our country. We lift the whole village bodily from where it is situated, and dump it down in a sparsely inhabited, unproductive mountainous region in tribal territory. Is this possible? Perhaps not, actually, but imagination comes to our aid.

We assume, further, that the village is provided with a very strong contingent of non-violent volunteers, armed with the most powerful weapon in the armoury of Satyagraha, the *charkha*.

The arrival of the village in tribal territory, we can well imagine, would immediately attract attention. This is to put it mildly—it would be, in fact,—a sensational event. What kind of rela-

tions would be established between the new village and its neighbours ? We may assume that at first the relations would be of the friendliest character, but the tribesmen would not be slow to discover that while they were poor, the inhabitants of the new village were relatively rich, each cultivator having a good deal of fertile land, yielding abundant crops. When the tribesmen made the further discovery that life in the village republic was founded on truth and non-violence, their friendliness would change. The struggle for existence, which is a universal law of nature, would begin. The village would be raided and cattle, women and children carried off. In the final phase the village republic would lose its independence—many of the inhabitants would be slaughtered ; the rest would fly for their lives, the non-violent volunteers leading the flight, reciting *Ramnam* ceaselessly.

Think of India as a village republic—we are a predominantly agricultural people. Can a village republic, having won its independence, maintain it by non-violent means ? Certainly, if our neighbours also accept the creed of *Ahimsa*. Stalin, so far as the present writer is aware, has not evinced the slightest interest in *Ahimsa*. If ever there was a man of blood and iron, Stalin is one. Russia in the 19th century was the bogey of British Imperialism. Russia is more than a bogey today. Russia means business. The Russia of Stalin is not the Russia of Lenin. Today Russia is one of the biggest and most ruthless of Imperialist Powers. Her creed of Marxism, or socialism, or whatever one may call it, is perfectly consistent

with conquest and annexation. She has annexed big slices of territory, to which she had no legitimate claim, in Eastern Europe. She tried to create trouble in Persia and Turkey. Fortunately for humanity, she has not yet discovered the secret of atom-bomb manufacture. That probably explains why she abandoned her Imperialist projects in Persia and Turkey. The day Russia is as well provided with the latest weapons of destruction as the United States and Britain, trouble would begin in the East.

Have I any objection to the conquest of India by Russia? Yes, a very sensible objection. The Muhammadan conquest forced us to learn Persian, and the British conquest forced us to acquire a knowledge of English. I do not feel equal to mastering the intricacies of the Russian language, and you will say the same if you knew how difficult Russian is. I believe this point of view found expression in a memorandum submitted by a deputation in Bengal to the British Parliamentary Delegation which preceded the British Cabinet Mission.

One may joke about the Russian language, but not about Russia's designs and intentions, nor about Russia's might as a world Power. The second World War has not banished the fear of war for ever. No big Power is disarming. The feverish search for more and more powerful means of destruction continues. We are sitting on the edge of a volcano; the volcano may burst any day.

Non-violence, in order to achieve its object, must be practised on a world scale. In this respect it

is like communism in its final stage. A communist society is State-less. The State as the repository of force disappears, or, to use Engels' classical phrase, it 'falls asleep'. It is evident that communism must be international, or there is no communism. For if, when world communism came, even the smallest communist society possessed armaments, while the rest of the world had disarmed, this smallest of communist societies could conquer the whole world. It would be an easy walk-over for the aggressor, for there would be no State to overthrow, the State everywhere having disappeared, or 'fallen asleep,' or 'died out.'

Whatever the form of future world society, the danger of war and aggression can never be completely eliminated. This is because of differences in the natural and other resources at the command of different countries, and the international differences in standards of living. "Workers of the world, unite"! said Marx. This is the battle-cry of socialists all over the world. But workers of the world have different standards of living, and workers in no country are prepared to sacrifice their comfort for the good of workers anywhere else. One may draw a lesson from the treatment of Indians in South Africa. The struggle is economic—the whites would never permit the Indian community there to encroach, directly or indirectly, on their standard of living.

To maintain her independence, India must arm. No one outside a lunatic asylum, excepting men of faith, can, for a single moment seriously think that the *charkha* can defend the country's freedom.

If you grant this, then the economic structure of free India is not a debatable question. Our economic structure must be based on the machine. Every one knows what a modern war is and how it is fought. The *charkha* cannot produce modern armaments.

Defence is intimately connected with Industry. Some time ago the German Institute for Economic Research estimated that 60 per cent of Industry was affected by armament expenditures. When warships, aeroplanes etc., are built, employment is created not only in the industries concerned but indirectly in a great number of engineering, iron and steel and related industries. Rearmament in the years immediately preceding the outbreak of the second World War was an important factor in world recovery from the Great Depression of 1929-32.

LAW AND ORDER

Can *Ahimsa* maintain law and order? We have a faithful account of *Ahimsa* as practised by 'de Benjanen' of the West coast of India by a Dutch factor, W. Geleynssen De Jongh. De Jongh was in the service of the Dutch East India Company. He came to our India at the end of 1621, and was promoted to the rank of head factor (*opper-coopman*) in 1623. From 1623 to 1632 he served at Burhanpur and later, till 1640, as assistant director at Broach and Surat.

De Jongh got to know the people among whom he lived and worked, and he was a careful observer.

His account of the western coast is of more than ordinary interest. He wrote the whole of it in 1625, except the concluding portion, which was added in 1631. The manuscript was edited by the late Prof. Caland, the well-known Sanskrit scholar, in 1928, and published in 1929.

De Jongh thus explains why the roads were not safe for travellers :¹

“ The reason why the roads are unsafe is that they are daily used by *bania* and heathen merchants, who travel with their goods but take few or no armed guards with them. The robbers attack them without hesitation and take what they please. For these merchants would rather lose their goods than kill any one (even their enemy), which these thieves or robbers know very well. If trade were carried on by Moors and Christians alone, and they alone used the roads for travelling, so many robberies would not be committed as at present, for Moors or Mughals (as also Christians) would rather die fighting than be robbed of their goods.”

Suppose I am waylaid by a robber on a dark night. And I say to him: “ I have taken the vow of non-violence. You may therefore take

¹ In quaint 17th century Dutch this interesting passage reads ;

“ Want dese corpluyden liever haer goedren missen als yemant (hoewel thaer vijanden zijn) soude dooden, twelck dese dieven ofte wechrovers wel weten ; dat soo den handel niet als door Mooren ofte Cristenen gadreven ende de wegen door haer bereijst werden, men soo veel gedieften niet ontmoeten soude als nu doen, want de Mooren ofte Mogollen (soo wel als de Cristenen) liever doot soude vechten als hear goederen van struijckrovers laten nemen.” *Remonstrantie*, p. 44.

what I have. I will not offer resistance." I allow myself to be robbed. According to Mahatma Gandhi, if *goondas* will kill us, we should allow ourselves to be killed. It follows that if *goondas* will rob us, we should allow ourselves to be robbed. For if non-violence is something more important than life, it is much more important than money or goods.

We may all allow ourselves to be killed by *goondas*. But that is not how law and order is maintained.

The question has been put to Mahatma Gandhi again and again: 'Can *Ahimsa* protect the honour of women?' His answer is yes, provided everybody concerned is prepared to be killed by *goondas*.

Are we unfamiliar with what happens in a riot? Since the coming of Satyagraha, possibly several thousand men, women and children have lost their lives in communal rioting; property worth crores of rupees has been looted or destroyed by arson. Not a single big riot has ever been quelled by the exercise of soul-force. If this fact were brought to the notice of Mahatma Gandhi, he would say very simply: "Our *Ahimsa* is half-baked"; from which it follows that when *Ahimsa* has been fully developed, soul-force would overcome violence!

The 'butchery' in Ahmedabad, as Mahatma Gandhi called it, evidently made a deep impression on him and in the *Harijan*, dated August 4, 1946, he made public his resolve to finally put his faith in non-violence to a test: "God willing, the chance will still come to me, and by throwing

me in the fire, He will purify me and make the path of non-violence clear". One wishes that Mahatma Gandhi had come to this decision when the first communal riot broke out after the adoption of truth and *Ahimsa* by the Congress as its political creed. The mere sight of rioting would have convinced him that when men turn into wild beasts and start butchering innocent men, women and children, and burning and looting property, they can be subdued not by soul-force but by brute force. Be that as it may, Mahatma Gandhi in conducting his experiments with truth has no right to create a split between the Hindu and the Muslim. That is what he has done. What good reason had any one to expect that *Ahimsa*, a characteristically Hindu view of life and conduct, would make an instant appeal to the overwhelming majority of Muslims? (I am not saying that for the first time). Why should Muslims assemble under the banner of the *charkha*? Can any one think of Mr. Jinnah wearing a Gandhi cap and spending some time daily in plying the *charkha*, reciting the equivalent of *Ramnam* ceaselessly?

The moment Mahatma Gandhi decided to spiritualise our politics, he sowed the seeds of disunion, conflict, and Pakistan. We are now reaping the harvest.

The state of communal tension in our country is such that God may be trusted to create a riot at any time to enable Mahatma Gandhi to test his faith. Suppose for a moment that Mahatma Gandhi works a miracle. As soon as he appears in a disturbed area, *goondas* melt away; the milk

of human kindness begins to flow ; people, who had been fighting, fall on each other's necks, with tears of repentance running down their cheeks. Assume further that the mere sight of other soul-force experts, trained by Mahatma Gandhi, has also the same powerful effect on rioters everywhere. Will that make the path clear for non-violence? No. Greater miracles will still have to be worked. When the next war breaks out (fighting is even now going on in China), and bombers appear over Indian cities, soul-force will have to render their bombs innocuous. Can soul-force make a falling bomb fly upwards, so that it hits the 'plane which released it? Possibly, by a miracle. Such soul-force would be worth tons and tons of gold. It would be worth more than all the armaments in the world. Does it exist anywhere on earth?

POPULATION AND FOOD SUPPLY

Let us return to Mahatma Gandhi's village republics. Assume that each family has a sufficient amount of land for its support, and that the village is really self-contained in the sense that there is no import of food from the external world.

Assuming that population is increasing steadily at the rate of one per cent per annum, it would double in 70 years. If land is cultivated with the same degree of skill and efficiency as before, the yield per acre would be the same as before and the total amount of production would remain unchanged. Under these conditions, the standard

of living of the population must fall.

Remember that in the overwhelming majority of our villages, the overwhelming majority of the cultivators do not possess land sufficient to maintain a reasonable standard of living. Also remember that the population, during the past 25 years, has been increasing at a rate exceeding one per cent per annum. The consequences are obvious. Over large parts of the country the people live from hand to mouth. The growth of food-supply has failed to keep pace with the growth of numbers and in several parts of the country conditions of chronic famine prevail.

In the issue of the *Harijan*, dated March 31, 1946, Mahatma Gandhi had some very interesting observations to make on the subject of famine, and the 'bogey of increasing birth rate'. The occasion was provided by the following statement by Major-General MacGaw, President, India Office Medical Board :

"Famines in India will recur ; in fact India is today facing perpetual famine. Unless something is done to decrease the birth-rate in India, the country will be heading straight for a calamity."

The warning was seriously meant, and it deserves to be heeded.

Mahatma Gandhi's comment was characteristic :

"The bogey of increasing birth rate is not a new thing. It has been often trotted out. Increase in population is not and ought not to be regarded as a calamity to be avoided. Its regulation or restriction by artificial methods is a calamity of the first grade whether we know it or not. It is

bound to degrade the race, if it becomes universal, which, thank God, it is never likely to be."

Birth control is not likely to become universal in India, so long as the masses are held by religion in its grip of iron, as in a vice—for which God be thanked. Still it would be profitable for us to make a comparative study of birth rates, if only to know the depths of degradation to which certain peoples have sunk.

We may classify the countries of the world according to their birth rates per 1,000 of the population in 1939 as shown in the Table given below :

[TABLE

WORLD BIRTH RATES Source *League Statistical Table 81*

Birth Rate, 21 per 1,000 or less		Birth Rate, 21 to 30 per 1,000		Birth Rate, 30 per 1,000 and above	
France	14.6	England	21.1	Surinam	30.4
England and Wales	14.8	Bulgaria	21.4	Jamaica	31.6
Luxembourg	14.9	Lithuania	22.4	Columbia	31.7
Switzerland	15.2	Danzig	22.9	Nicaragua	32.5
Belgium	15.3	Palestine, Jews	23.0	India	33
Sweden	15.4	Greece	23.3	Malta	33.2
Norway	15.9	Italy	23.5	Chile	33.4
Spain	16.5	Argentina	24.0	Venezuela	35.8
U.S.A. (Whites)	16.9	Union of S. Africa	25.3	Ceylon	36.0
Scotland	17.4	(White population)	25.9	Puerto Rico	39.6
Australia	17.7	Yugoslavia	26.2	Federated Malaya States	41.0
Denmark	17.8	Portugal	26.3	Salvador	41.6
New Zealand (Whites)	18.7	Japan	27.9	Egypt	42.2
Ireland	19.1	Albania	28.3	Straits Settlements	44.4
Hungary	19.9	Rumania	28.3	New Zealand, Maoris	46.2
Germany	20.5	British Guiana	28.3	Palestine, Moslems	46.4
Netherlands	20.6				
Austria	20.9				

The worst specimens of degraded humanity will be found in column 1; and the best specimens of spiritually evolved humanity in column 3 of the Table given above. Of course, we have a place in the 3rd column, with a birth-rate of 33 per 1,000, which is more than twice as high as those of England and Wales, France, Belgium, Sweden, Norway and Switzerland.

The reader will notice the contrast between Palestine Jews (23·0) and Palestine Moslems (46·4). The birth-rate is effectively under control in countries mentioned in column 1 and moderately controlled in countries in column 2. There is no birth-control worth mentioning in countries shown in the last column of the Table.

Information about the net reproduction rate is available for some countries. It may be explained that a net reproduction rate of 1·0 represents a stationary population, of less than 1·0 a declining population, and of more than 1·0 a growing population.

NET REPRODUCTION RATES

(Source: League Statistics)

Less than 1·0			More than 1·0		
U.S.A (Whites)	0·957	(1935-40)	Union of S. Africa	1·346	(1940)
Germany	0·934	(1936)	Canada	1·274	(1940-42)
Austria	0·64	(1939)	Japan	1·44	(1937)
Belgium	0·672	(1941)	Bulgaria	1·192	(1933-36)
Finland	0·96	(1938)	Denmark	1·140	(1943)
Estonia	0·79	(1938)	Spain	1·22	(1930-31)
France	0·9	(1939)	Ireland	1·192	(1940-42)
Latvia	0·99	(1939)	Italy	1·131	(1935-37)
Norway	0·856	(1939)	Malta	1·19	(1930-32)
Eng. & Wales	·99	(1944)	Netherlands	1·305	(1943)

Less than 1.0			More than 1.0		
Scotland	0.895	(1941)	Poland	1.11	(1934)
Sweden	0.843	(1941)	Portugal	1.334	(1930-31)
Czechoslovakia	0.939	(1929-32)	Switzerland	1.054	(1943)
			Australia	1.163	(1943)
			New Zealand	1.208	(1942)
			Hungary	1.0	(1938)

In Hungary, in 1938, existing women were just replacing themselves, or the population was stationary. In the first column of the Table given above we have countries threatened with a population decline, unless measures are taken to stimulate the birth-rate.

The Indian Census Tables for 1941, for the first time in our Census history, include a Table showing fertility rates for women (15 villages of Ajmer-Merwara selected at random). These figures yield a net reproduction rate of 1.19. We have a growing population. More comprehensive data would be required to calculate the net reproduction rate for the whole of India.

The growth of population is determined, not by the absolute level of the birth-rate, but by the difference between the birth-rate and the death-rate. Before 1920 our birth-rate was higher than at present, but famines and epidemics took a heavy toll of life and the population tended to increase slowly. (Mahatma Gandhi incorrectly speaks of the bogey of 'increasing birth-rate'; he means the bogey of increasing population). The progress of medical science has reduced the mortality from plague, small-pox, and cholera, and infant mortality; one may also refer in this connection to the outburst of 'nation-building activity' all over India

with the inauguration of constitutional reforms in 1921. Of special significance is the downward trend of infant mortality. It has been calculated that if the trend continues downwards, as during 1920-40, the addition to the population from this cause alone will be 7 millions in 1951 and 13·4 millions in 1961.

The consequences of not controlling the birth-rate, while every possible endeavour is made to bring down the death-rate through the control of disease, may be studied in the following figures, which have been calculated on the assumption that we are able to maintain the rate of growth of the period 1921-41 :

<i>Year</i>	<i>Estimated Population of India (Lakhs)</i>
1951	... 43,88
1961	... 49,50
1971	... 55,84
1981	... 62,90
1991	... 71,05
2001	... 80,15
2011	... 90,41
2021	... 101,99

The population of India rose from 30,57 lakhs in 1921 to 38,90 lakhs in 1941 (excluding Burma). Our rate of growth during this period slightly exceeded 1 per cent per annum. Continuing to increase at this rate, the population will more than double itself at the end of 70 years and exceed 1,000 millions in the year of grace 2021.

Will it? No. Long before we reach the 1,000 million mark our rulers will take good care to create famines periodically to slow down the rate of growth.

That famines are created by the rulers is

Mahatma Gandhi's idea, not mine. In the same issue of the *Harijan* Mahatma Gandhi said :

"I have stated and repeat here that famines of India are not a calamity descended upon us from nature but is a calamity created by the rulers--whether through ignorant indifference or whether consciously or otherwise does not matter."

Rulers who consciously create a famine would deserve to be killed like a mad dog.

No famine is consciously or deliberately created by the rulers. But famine is inherent in a particular economic structure. If the economic structure of free India were based on village republics, there would be chronic famine in the country. Even *Ram Rajya* could not save millions of men, women and children from death by starvation. For, in Mahatma Gandhi's *Ram Rajya*, there will be no railways, and scarcity in one part of the country could not be relieved by the surplus of another part. There will be no large-scale irrigation projects which involve the use of machinery. There will be no cheap electricity for working tube-wells. There will be no large-scale manufacture of chemical fertilizers. What is proposed by Mahatma Gandhi is a return to the pre-machine age.

Famines were not unknown even in ancient India, and they were frequent in India under Muhammadan rule. But in India in the past, on the whole, the growth of food production kept pace with the growth of numbers, and in this vital respect the situation confronting us today is decidedly worse, in spite of our railways and irrigation pro-

jects. Even 300 years ago, if one may judge from the accounts of travellers, a good deal of land was lying uncultivated, and any one undertaking to pay the land-revenue was permitted to bring as much land under the plough as he was able to manage, and land of his choice. Apart from famine years, there was plenty of food available, and it sold at prices, in good years, which now appear incredible.

The reader's attention is invited to the following chart showing wheat prices at Delhi in rupees

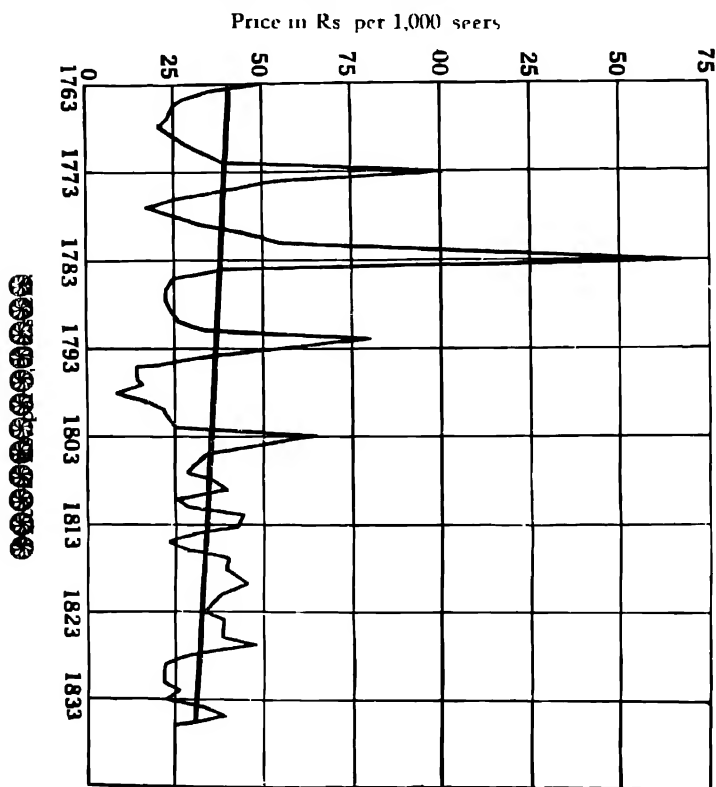


Chart showing the price of wheat at Delhi, from 1763 to 1835, and the trend.

per 1,000 seers. There are three or four clearly marked famine years, of which that of the year 1783 was the worst. The price of wheat rose to Rs. 167 per 1,000 seers, which was an abnormally high price for those days. In the year 1798 the price was as low as Rs. 8; or actually 125 seers were sold for a rupee. Ignoring violent oscillations in either direction, the price was fairly stable over the whole period, with a slightly downward trend, shown by the straight line. This remarkable stability of long-period price can only be explained on the assumption that, on the whole, the growth of production kept pace with the growth of population.

Abul Fazl's *Ain-i-Akbari* gives valuable information about prices and wages. The prices are given in *dams* per *man*. Akbar's *man* was equal to 55½ lbs., and 40 *dams* were reckoned to the rupee in the payment of salaries. Per *man* of 55½ lbs., the price of wheat was 12 *dams*, corresponding to 185 lbs., per rupee; the price of *ghee* per *man* was 105 *dams*, corresponding to 21 lbs. per rupee. As compared with these prices, the price of wheat today has risen more than 20 times, and that of *ghee* more than 40 times.

This tremendous rise in the price of necessities is not merely due to the depreciation of money, but to a real comparative shortage of supply. The economic situation is grave and it calls for urgent measures to increase production in all possible ways. At each moment the population is increasing, demanding more cereals, more milk, more *ghee*

and other necessities. Under-nourishment is gradually undermining the health of the people, making them more and more susceptible to the onslaughts of disease. Let no one imagine that epidemics can always be fought successfully by means of vaccination and inoculation. The best safeguard against disease is healthy and adequate food, including necessities for efficiency, not doses of medicine.

The worst feature of *piri* and *muridi* in this country is that the *pir* is not only the religious head of his community but an infallible guide in all matters. There is a Persian saying :

Piran name parand, muridān me pranand.

This is not true of our *pirs*. They grow their own wings to fly. One would think that the relation of population to food-supply was a technical subject, on which opinion could not be expressed without a comprehensive, statistical study. The *pir* of Hindu India has never cared to study facts ; he relies on intuition to solve all problems.

CONDITIONS OF ECONOMIC PROGRESS

The reader is warned that our approach to the question of economic structure of free India is purely economic. There is a profound difference between the religious and the economic points of view in regard to wealth. The religious ideal is poverty and good life ; power and plenty is the goal of economics in its practical aspect.

The methods of enquiry are also different. Religion solves problems by intuition, or with the

help of divine inspiration ; science relies on observation and experiment. Is it surprising that the conclusions reached by science and religion are very often in conflict ? Here we are not concerned with the general conflict between religion and science, but with instances within our own restricted field.

Religion has no concern with conditions of economic progress ; the science of economics must take cognizance of them, both in its light-bearing and fruit-bearing aspects.

Colin Clark has written a whole book on the subject. The discussion is technical ; the book abounds in facts, generalisations or laws, formulæ and equations. We shall leave out the mathematics, for the present work is meant for the general reader. But there are facts which must be noticed, as they embody world experience. There is a general law of economic progress and prosperity. The law, called Petty's law, is simple and easily comprehended.

Sir William Petty's *Political Arithmetik* was first printed in 1691. At that time Holland was a rich and prosperous country and the Dutch were the greatest sea-faring nation of the world. Petty was a keen and careful observer. What were the causes of the prosperity of the Dutch ? Why was England poor ? He says in *Political Arithmetik* :

" There is much more to be gained by manufacture than Husbandry ; and by Merchandise than Manufacture."

In another place he compares the wages of

husbandmen with those of seamen :

"The Husbandman of England earns but about 4s. per Week, but the Seamen have as good as 12s. in Wages, Victuals (and as it were housing) with other accommodations, for as a Seaman is in effect three Husbandmen ; wherefore there is little Ploughing, and Sowing of Corn in *Holland* and *Zealand*, or breeding of young Cattle."

To earn more wealth in the most profitable occupations the Hollanders had 'rid their hands' of 'the old Patriarchal Trade of being cow-keepers,' "and in a great measure of that which concerns Ploughing and Sowing of Corn, having put that Employment upon the *Danes* and *Polanders*, from whom they have their Young Cattle and Corn. Now here we may take notice, that as Trades and curious Arts increase ; so the Trade of Husbandry will decrease."

With progress husbandry declines, but the proportion of the population earning their income from service of all kinds increases. Agriculture, forestry and fishing comprise the Primary occupations ; mining, building and industry, Secondary ; and commerce, transport and services, Tertiary occupations. With progress there is a flow of labour from Primary to Tertiary occupations. Such is Petty's Law. The law is confirmed by a Table given by Colin Clark showing, for different countries, real income per head, and the occupational distribution of workers. More recent figures of the distribution of the gainfully occupied population in different countries are given in a publication of the League of Nations,

entitled *Industrialisation and Foreign Trade* (pp. 26-7). For reasons of space we do not reproduce the whole Table, but give an extract, which is sufficient to illustrate our point.

PERCENTAGE DISTRIBUTION OF THE GAINFULLY
OCCUPIED POPULATION

Country	Year	Agriculture, fishing	Commerce, transport, administration, domestic service, etc
<i>1. Typical Industrial Countries</i>			
United Kingdom ..	1930	7	56
Belgium ...	1930	17	35
Netherlands ...	1930	21	41
Switzerland ...	1930	21	34
United States ...	1930	22	36
Czechoslovakia ...	1930	28	30
Germany ..	1933	29	31
Austria ...	1934	32	34
Sweden ...	1930	36	32
France ...	1931	36	30
Italy ...	1936	48	23
Japan ...	1930	50	30
<i>2 Other Industrial Countries</i>			
Austria ...	1933	20	48
New Zealand ...	1936	28	48
Argentina ...	1930	30	42
Canada ...	1931	31	42
Norway ...	1930	35	38

Country	Year	Agriculture, fishing	Commerce, transport, administration, domestic service, etc.
Denmark ...	1930	36	36
South Africa, White Population	1936	26	47
Others ...	1921	75	14
3. <i>Countries lagging in Industrial Development.</i>			
Egypt ...	1927	67	22
Mexico ...	1930	68	18
French Indo-China ...	1930	71	...
India ...	1931	72	17
Thailand ...	1930	72	...
Columbia ...	1930	72	...
Venezuela ...	1930	72	...
China ...	1930	70-75	...
Netherland Indies ...	1930	73	...
Peru ...	1930	74	...
Brazil ...	1930	75	..
Philippines ...	1930	76	...
Iran ...	1930	76	...
Rumania ...	1930	78	15
Yugoslavia ...	1931	79	10
Lithuania ...	1923	80	14
Bulgaria ...	1934	80	12
Turkey ...	1935	82	10

Where no figure is shown in the last column, information is not available.

Is it not clear that the poorest countries are those where the proportion of workers engaged in Primary occupations is the highest and that the richest countries are those where, generally speaking, the Tertiary occupations are of the greatest importance as the means of livelihood?

These facts enable us to see Mahatma Gandhi's village republics in a new light. Industrialisation is based, not on village republics, but the growth of large-scale industry, which is associated with urbanisation, and a steady decline in the proportion of workers engaged in Primary occupations (agriculture, fishing, etc.).

Between 1872 and 1935 this proportion fell from 72·3% to 25·4% in the United States; in Great Britain it fell from 22·7% to 6·4% between 1841 and 1931; in Germany from 39·1% to 20·4% between 1882 and 1933; and in France from 43·0% to 24·5% between 1866 and 1931. In Japan the proportion of agricultural workers to the total was as high as 84·8% in 1872. Fifteen years later, in 1887, it had fallen to 71·8% and 15 years later, in 1912, to 61·5%. According to the figures of the International Labour Office this proportion in 1920 was 53·5% and ten years later, in 1930, 50·3%.

India has to make a fateful choice. Do we want an economic structure for poverty and good life, or for power and plenty. If we choose the latter, *charkha* economics must be discarded.

It is sometimes argued that there is enormous scope for the development of handicrafts, and that, in the course of the next ten years, the production of handicrafts could be increased twenty times over

what it is today. Let us consider the presuppositions of a twenty-fold increase in the output of village or cottage industries.

Out of a population of 352·9 millions in 1931, 153·9 millions, or 44 per cent. were workers. Assuming a population of 40 crores at the present time, the number of workers would be about 18 crores.

The proportion of workers engaged in industry may be taken as 10 per cent., of whom approximately 1 per cent are employed in organised industry, and 9 per cent are hand-workers. We have thus 162 lakhs of hand-workers out of a total of 1800 lakhs.

Let us take the *charkha* as typical of the implements used by hand-workers. If the hand-worker today is doing his best (as he is under the stimulus of abnormally high prices) to double the output two men will be required in the place of one. To bring about a 20-fold increase in output, the labour force must be increased 20 times ; or the number of workers must rise from 162 lakhs to 3240 lakhs (162×20). And we have only 1800 lakhs of workers !

Assuming a 50 per cent increase in the efficiency of hand-workers, to increase their output 20 times a labour force of 24,30 lakhs would be required.

Even if the whole natural increase in the number of workers over a period of 10 years were diverted to handicrafts ; even if labour were completely withdrawn from agriculture and other employments and devoted to handicrafts, the out-

put of hand-workers could not be increased twenty times.

But give a hand-spinner a *charkha* with a spindle revolving twenty times faster, and he will produce 20 times more yarn than before.

In mechanical spinning a worker with two assistants can easily manage two machines, each with 1200 spindles. Ignoring the greater speed of the machine spindle, the productivity of the machine is thus 800 times greater than that of the *charkha*, or three men working with machines will produce as much yarn as 2,400 men plying the *charkha*.

The German economist Gustav Schmoller gave some interesting examples of the increase in productive power due to machines in the course of a lecture delivered in 1903 on "*The machine age and its relation to human welfare and the organisation of social economy.*"

He estimated that in the year 1750, 9 million German workers worked with as many units of power in the shape of animals, wind-mills and water power, whereas in 1895, 26 million workers in Germany were using a volume of animal and mechanical power 6 times greater.

It has been estimated that in 1855 a single worker in the flour-milling industry had a productivity equal to that of 144 workers in Homer's time. In the iron and steel industry productivity is estimated to have increased, during 300 years, in the proportion of 1 : 30 ; in the cotton mill industry productivity of labour increased in the proportion of 1 : 700 between 1769 and 1855.

The world has not stood still since 1855 ; the progress of technique since then constitutes a second industrial revolution.

An economic structure of power and plenty must be based on machines. The conclusion is supported by world experience.

APPENDIX TO CHAPTER I

COMMUNISTIC SOCIETIES
OF THE UNITED STATES

Icaria, referred to contemptuously in the *Communist Manifesto*, was a small community of 65 individuals, mostly Frenchmen and Frenchwomen. The Amana and several other communities were founded by Germans. There were also communistic societies of born Americans, e.g., the Shakers, the Perfectionists, and the Aurora and Bethel Communes.

The Icarians had no religious observances. Luxury was prohibited by their constitution, 'but' says Nordhoff, 'they have not been much tempted in that direction. They use tobacco, however.'¹

The **Shakers** discouraged the tobacco-chewing habit, and their journal faithfully recorded the event when the tobacco-chewing habit '*died*' in any group of 'much-beloved brethren,' 'by the power of truth, and for the cause of Human Redemption.'²

In all communistic societies, property was held in common. Members on permanently joining a society were required to hand over their earthly possessions to the Trustees, or President or the controlling body. The Society undertook to meet their needs, which were of the simplest character.

¹ Nordhoff, loc. cit. p. 338.

² *Ibid.*, p. 167.

All were required to labour. The **Amana Community** owned several villages (25,000 acres). 'It is supposed,' says Nordhoff, 'that the labour of each village produces a profit; but whether it does so or not makes no difference in the supplies of the people, who receive everything alike, as all property is held in common.'

The Amana Community had framed twenty-one "Rules for Daily Life." A few are reproduced below :

V. To abandon self, with all its desires, knowledge, and power.

X. Count every word, thought, and work as done in the immediate presence of God, in sleeping and waking, eating, drinking, etc., and give Him at once an account of it, to see if all is done in His fear and love.

XVI. Have no intercourse with worldly-minded men; never seek their society; speak little with them, and never without need; and then not without fear and trembling.

XVII. Therefore, what you have to do with such men, do in haste; do not waste time in public places and worldly society, that you be not tempted and led away.

XVIII. Fly from the society of women-kind as much as possible, as a very highly dangerous magnet and magical fire.

XIX. Avoid obeisance and the fear of men; these are dangerous ways.

XX. Dinners, weddings, feasts, avoid entirely; at the best there is sin.

XXI. Constantly practise abstinence and temperance, so that you may be as wakeful after eating as before."³

The **Harmony Society**, in admitting a new member, exacted a complete confession of sins to one of the elders of the Society. They held that the coming of Christ and the renovation of the world were near at hand. In that faith and conviction the Harmonists lived in harmony and peace. They lived economically. As one of them said :

"As each labours for all, and as the interest of one is the interest of all, there is no occasion for selfishness and no room for waste. We were brought up to be economical; to waste is a sin; we live simply; and each has enough, all that he can eat and wear, and no man can use more than that."⁴

The **Separatists of Zoar** were so called because they had separated themselves from all ecclesiastical connections and constitutions. The members of their first or probationary class did not give up their property. They bound themselves to labour, obey and carry out the orders of the Trustees of the Society, and the Trustees, on their part, agreed to provide board and clothing free of cost, and also medical attendance and nursing in case of sickness. "Good moral conduct, such as enjoined by the strict observance of the principles of Holy Writ" was also promised by both parties, and it was stipulated that "no extra supplies shall be asked or allowed, neither in meat, drink, clothing, nor dwelling (cases of sickness excepted);

³ *Ibid* , pp. 50-51.

⁴ Nordhoff, loc. cit., p 37.

but such, if any can be allowed to exist, may and shall be obtained (by the neophytes) through means of their own, and never out of the common fund.”⁵

On being received into full membership, the probationer handed over all his property to the Trustees. The constitution of the Society was republican and all officers were elected by ballot. The Trustees managed all the affairs of the Society. They were bound to provide board, clothing and dwelling for each member ‘without respect of persons.’

The Society did not look on marriage with favour but no penalty was inflicted, nor any disability imposed, on members who chose to marry.

The **Perfectionists** strove for the immediate and total cessation from sin. They held that intercourse with God could proceed so far as to destroy selfishness in the heart and so make an end of sin, and that was why they called themselves ‘Perfectionists’.

In the **Aurora Commune** all worked for the common good, and were supplied with their requirements from the common stores. Nordhoff asked the purchasing agent about the book-keeping of the Society. He said: “As there is no trading, few accounts are needed. Much of what we raise is consumed on the place, and of what the people use, no account is kept. Thus, if a family needs flour, it goes freely to the mill and gets what it requires. If butter, it goes to the

⁵ *Ibid.*, p. 105.

store in the same way. We need only to keep account of what we sell of our own products, and of what we buy from abroad, and these accounts check each other. When we make money, we invest it in land."⁶

Tea, coffee and sugar were rationed to each family. Each family had either a house, or apartments in one of the large houses. Each had a garden patch, and kept chickens; and every year a number of pigs were set apart for each household, according to its number. Nordhoff found an abundance of good, plain food everywhere.

Idlers and dissolute persons generally left the Society, or were got rid of.

Nordhoff asked the President of the Society, Dr. Keil, whether there were no disagreements from envy or jealousy among them. Dr. Keil replied :

"Very seldom now; the people have been too long and too thoroughly trained; they are too well satisfied of the wisdom of our plan of life; they are practised in self-sacrifice, and know that selfishness is evil and the source of unhappiness. In the early days we used sometimes to have trouble. Thus a man would say, 'I brought money into the society, and this other man brought none; why should he have as much as I'; but my reply was, 'Here is your money—take it; it is not necessary; but while you remain, remember that you are no better than he.' Again, another might say, 'My labour brings one thousand dollars a year to the Society,

⁶ Nordhoff, *loc. cit.*, p. 315.

his only two hundred and fifty'; but my answer was, 'Thank God that He made you so much abler, stronger, to help your brother; but take care lest your poorer brothers do not some day have to help you, when you are crippled, or ill, or disabled.'¹

The Amana Society departed from strict communist principles in making an allowance in money from 40 to 100 dollars to each adult male for clothing. Smaller allowances for the same object were fixed for women and children. 'Vanities of apparel,' however, were strictly controlled and young girls were not allowed to buy or wear ear-rings or breast-pins. Food was distributed to the houses according to the number of persons eating in each.

Generally these communistic societies were successful. The founders of the Amana Society came from Germany in 1842. Karl Diehl² notes that this Society still existed in 1907.

¹ Nordhoff, loc. cit., p 314.

² *Ueber Sozialismus, Kommunismus und Anarchismus* (Jena 1922), Chapter II.

CHAPTER II

LAISSEZ FAIRE

Will a book discussing the future economic structure of any country in Europe or America begin with *charkha* economics? No. But, then, is there any country in Europe or America which fought its war of independence under the banner of the *charkha*? India is unique in this respect. We are a wonderful people—at any rate our leaders are wonderful!

The last chapter may be summed up in one sentence. *Charkha* economics, whether considered from the point of view of defence, law and order, or the material welfare of a rapidly increasing population, is nonsense.

Charkha economics having been discarded, we have still to choose our economic system. There are two alternatives: *laissez faire* and a planned economy. If we choose the latter, a further choice will have to be made between planning with State-owned capital and planning with privately owned capital.

Laissez faire means 'let alone', or non-intervention by the State in economic matters. It is a system of free competition with governmental interference reduced to a minimum.

What are the functions of government in a *laissez faire* regime? The Sovereign has three duties only. He must defend the country against foreign

aggression ; he must maintain law and order within the country ; and, thirdly, he may erect and maintain certain works of public utility which private enterprise would tend to neglect. Indian economy before the first World War was largely a *laissez faire* economy. The construction of railways began a little before the Mutiny of 1857 and was expedited after that upheaval. Indian capital was not available for the purpose and railways had to be built as rapidly as possible, first, for the consolidation of British power in India, and, second, for the economic development of the country, which then meant creating a market for British manufactures in India, and enabling India to pay for manufactured imports by the export of raw materials and food-stuffs. As in the case of railways, capital was raised in Britain for the construction of canals. Private enterprise in a backward country cannot be expected to provide the immense sums required for canal and railway construction. Both railways and canals are also means of famine protection, and therefore proper objects of Government attention. The State may also prevent coast erosion, bestow care on the preservation of forests, and take steps to conserve or develop other resources, which would be neglected by private enterprise. Such are the economic functions of government under *laissez faire*.

In production and internal and external trade we assume free competition among buyers on the one side and sellers on the other. Foreign trade may be entirely free, but generally light duties are levied for the sake of revenue. For

example, we had a 5% revenue tariff before 1914. By 1880 all duties on imports had been abolished; and when, in 1894, fiscal reasons compelled the Government of India to levy a 5% duty on the imports of British cotton piece-goods, an equivalent excise duty was imposed on the products of Indian cotton mills. Why? *Laissez faire* gives the right to the consumer to buy in the cheapest market, whether in his own country or anywhere else in the world. Import duties discriminate against the foreigner and thus limit consumer's sovereignty.

Under *laissez faire* the consumer is sovereign in the sense that he determines the course of economic activity. Goods are produced to meet demand. If the consumer's preferences change, supply also changes. Our sovereignty as consumers is limited by the length of our purses. Suppose there is only one pice in my purse. Then I am sovereign, or master of the world, and can command the goods of the world to the extent of one pice only. But then, there are other people who command greater resources. Producers study the demand of consumers and adapt production to consumers' requirements.

Assume that there is the freest competition among producers—that as profits fall in one industry and rise in another, both labour and capital can be rapidly and without difficulty shifted from the less profitable to the more profitable industry. We assume total absence of all obstacles to movement. Under such conditions the interests of consumers will be best served by *laissez faire*. Why? Under the stimulus of profits each

producer will produce the best and the cheapest goods. It is in his interest to please the consumer ; when the consumer is pleased, the producer will effect the largest sales and net the biggest profit. Thus there is harmony between the interests of the producer and the consumer.

Suppose the producer who can supply the best and the cheapest goods is a foreigner. Well, then, under *laissez faire*, he has the right to undersell home-manufactures. The fact that the latter are undersold may be taken as a proof that the labour and capital of the country were not being put to the most productive use in the industry concerned. They must leave the industry, and find a more remunerative channel of employment, say agriculture.

Laissez faire encourages the territorial division of labour. Countries specialise—agricultural countries supply food-stuffs and raw materials to manufacturing countries in exchange for manufactured consumers' goods. It can be shown that the territorial division of labour, under certain assumptions, increases the total productive power of the world, the total world output, and the share of both agricultural and industrial countries in that output.

Such is *laissez faire* in its national and international aspects. It works well, under certain assumptions. Even universal free trade would work extremely well, if we assumed perfect mobility of not only capital but labour between different countries. But *laissez faire* breaks down if its assumptions are not true.

Competition is never completely free. Even in an economy based on hand-work it is not possible for handicraftsmen to change their occupations rapidly. Very often children follow their parents' trade. If the shoe-maker earns higher profits than the weaver, weavers do not start making shoes. It is possible that the trade of shoe-making may attract a larger proportion of the rising generation, which has not yet specialised, but this is a slow process. Nor can we ignore obstacles to movement in the form of caste-prejudices, apprenticeship, etc. Similarly, if handicraftsmen generally earn more than cultivators, one would rarely find cultivators abandoning the land, or their hereditary occupation, for handicrafts.

But the age of handicrafts is over. We live in the machine age. How does free competition work out its effects when goods are produced in factories?

First, the worker loses his independence. He becomes a wage-earner. A hand-weaver does not work for wages, but for profits. He is his own employer. But a factory weaver works for a master. Why? A factory weaver cannot own a factory. The tools and implements are provided by the employer, and the worker supplies labour-power only.

As machine production develops, there is a massing of labour in factories. In highly industrialised countries factory-workers form a considerable proportion of the total population.

The organisation of production changes. Machine production is, generally speaking, large-

scale production. The larger the scale on which work is done and the greater the output, the more economical, in many cases, is production. The most profitable scale of production must vary from industry to industry. We have no space to discuss the economies of large-scale production, which are both internal and external. But an easy example may be given to illustrate an internal economy. Suppose a motor-car works employs an engineer on an annual salary of Rs. 30,000. If the output of motor-cars is 1000 per year, the cost of the engineer per car is Rs. 30. If 30,000 motor-cars were produced, the cost of the engineer, per car, would be reduced to only one rupee. This is true of all 'overhead' charges. They are more or less fixed. It follows that with a bigger output, overhead charges, reckoned per unit of output, would be lower than with a smaller output.

A factory represents the investment of a good deal of capital. An iron and steel works may represent capital investment of several hundred crores of rupees.

Capital has two forms, fixed and circulating. Circulating capital, e.g., leather used for making shoes, has to be renewed again and again as more and more shoes are turned out. But fixed capital, in the shape of machines and buildings, is durable. It wears out finally, but a new machine for sewing on shoe-buttons is not required for each new pair of shoes.

The more highly developed the industrial system of a country, the greater would be its wealth invested in the form of durable capital.

Both *charkha* and a spinning machine are capital—they are aids to production. But the spinning machine is a more round-about method of production than a *charkha*. A skilled craftsman would be able to make a *charkha* in a day. But to bring the spinning machine into being it is necessary to dig for coal and iron, to possess machine-making tools and adequate supplies of highly trained and specialized labour. Round-about methods of production are more profitable in the end, or they would not be employed. In spite of the fact that a spinning machine is far more costly than the *charkha*, it is cheaper when its output is considered. If that were not so, hand-spinning would not have died out in highly industrialised countries. Even in our country the *charkha* cannot compete with the machine on equal terms.

An industrial country, then, works with a good deal of its capital in the fixed form. The size of the industrial unit is large, and tends to increase.

It will be immediately apparent that competition among factories is not like competition among a great number of handicraftsmen, engaged in the same trade, each working independently. Factories compete against one another, but unregulated competition among giants can be so ruinous that, very often, instead of cutting one another's throats, the giants combine to cut the throats of the consumer. Trusts, cartels, syndicates and other forms of combination come into existence. Large-scale production tends towards monopoly. This tendency is inherent in capitalism. A monopoly, or semi-monopoly, works on a larger scale than the

individual businesses which combined to create it, and thus has greater access to the economies of large-scale production ; secondly, it is in a position to exact higher prices from the consumer.

What is the unit we are actually concerned with under modern conditions ? " The individual is the unit ", says Mahatma Gandhi. Yes, in consumption, the individual is still the unit. Consumers find it difficult to combine, and each individual, or a family, is the unit. But the individual is not the unit in production. The factory is the unit ; or a combination of factories, the syndicate, the cartel, or the trust is the unit.

As regards workers, is the individual labourer the unit in bargaining with the employer ? We have passed through a 25-day postal strike, and lucky indeed was the person living in those days in a strike-bound area who did not lose a single letter or other article addressed to him. Did the individual postman matter very much in the negotiations for a settlement ? No. The whole union or federation of postmen was the unit. Fortunately the strike did not involve all postmen and all places. But the next postal strike may. We have not seen the last of postal strikes.

A railway strike was threatened but did not materialise. The telegraph and telephone employees have also an all-India union. When a union of all workers in a trade is formed, a labour monopoly is created, and it is in the same position to exploit the consumer as a producers' monopoly.

A general strike of all railwaymen, post, telegraph and telephone employees and tram and

bus workers can paralyse all communications and transportation for so long as it lasts.

A monopolist is primarily interested in his own good, not in the welfare of the consumer. Several years ago the Punjab Government became interested in the affairs of the Electric Supply Company, Lahore. The share-holders were earning handsome dividends, at the cost, naturally, of the consumers of electricity. The Government reduced the charge per unit of electricity.

Not even the most ardent friend of labour can contend that the object of a labour strike is to promote the good of the general public. Strikes may be organised with political objects, to promote the spirit of class-war, to strengthen the Workers' State, or the Soviet-Union, or just to create trouble and confusion. It is easier for interested people to fish in troubled waters. The objects of a strike may be purely economic, but they never include the maximum amount of public good or welfare. When workers fight, they fight for themselves.

When semi-monopolies or monopolies come into existence, free competition ends. The economics that is still taught in our universities is the economics of free competition. It has no relation to actual facts. The whole of economic theory needs reconstruction on account of the passing away of free competition. The economics of 'imperfect competition' is engaging the attention of active minds in the West.

In this book we are not concerned with the theory of 'imperfect competition,' but the duty

of the state when free competition is replaced by 'imperfect competition.' The State is the representative of the general body of consumers. It is its duty to safeguard the interests of all. It cannot permit any kind of monopoly to exploit the general public.

The State may control the prices of monopolised products. It may regulate profits; it may prevent 'unfair competition' and it may try to break the monopolist's power, or draw his teeth, in other ways. In regard to a labour dispute it cannot watch the spectacle as a disinterested spectator. Modern enterprises sometimes employ thousands of workers. Apart from inflicting losses on both labour and capital, a prolonged strike in an industry of national importance may weaken a country's power of international competition. Valuable home markets may be lost to the foreigner, the hold on foreign markets may slacken. The Government must intervene. When a worker works on his own account, as a blacksmith making nails, his enterprise is his own affair. But an enterprise like the Tata Iron and Steel Works is a national affair. The same may be said of all producers on a large-scale.

Some capital is indispensable even in the earliest stage of society. The primitive hunter kills game with his bow and arrows; the primitive fisherman has his net and canoe, or his fishing tackle. Both labour and capital change their forms as society progresses. In the machine-age they tend to become more and more socialized. The whole process of production assumes a social aspect.

When this stage is reached, the State must develop a complicated apparatus of checks and controls, of regulation and management. In several countries before the outbreak of the second World War, the outbreak of strikes and lock-outs had been declared illegal, and labour-disputes were finally settled by special courts of law.

BANKING AND CREDIT

We have noted the emergence of monopoly or 'imperfect competition' in the field of production. We pass on to banking and credit, which play an outstanding role in the organisation of large-scale production.

Production takes time, and the producer without adequate financial resources of his own must borrow. Our cultivators are financed by the village money-lender. We may ignore co-operative credit as, in spite of the very great progress of the movement during the past 40 years, it has still touched only the fringe of the problem of rural indebtedness.

There is no fixed rate of interest in the villages. The rate of interest (which includes compensation for risk) may, in certain cases, be as high as 50 per cent (*diyoraḥ ḥisab*) or even 100 per cent (*doona ḥisab*). The State has not left the cultivator entirely to the tender mercies of the money-lender, but the maximum legal rates of interest are honoured more in the breach than acceptance. Is this a satisfactory state of affairs? Should not the State intervene more effectively? We are not concerned here with the methods of intervention, or regula-

tion, but the principle of the thing. Borrowing and lending in the villages is not the exclusive affair of the two parties, the borrower and the lender. The village money-lender is virtually a monopolist ; he cannot be permitted to misuse his power.

Banking in European countries originally meant the right of note-issue, and in the beginning banking companies could be freely established under the law to issue notes. There was free competition in banking, which became 'free trade in swindling.' How ? Suppose I set up as a 'banker' and issue notes in making loans. These notes are convertible on demand. There is nothing to prevent me from over-issuing notes. I would have, in fact, a strong temptation to do so, for money is lent on interest. My notes get into circulation. Some of them will be daily presented for encashment, thus weakening my reserve. A time may come when I have no cash left, and then I quietly disappear, leaving behind a large quantity of inconvertible, worthless paper.

Experience having shown that free competition in 'banking' was free trade in swindling, the right to issue notes in every country, before the outbreak of the last war, was enjoyed by a single bank, the Central Bank. In India the Reserve Bank of India alone has the right to issue notes. Originally paper money was issued in India by the three Presidency Banks of Calcutta, Bombay and Madras. Originally paper money was issued in the United States by several thousand National Banks. They no longer enjoy that right.

But note-issue is not an essential function of

banking. A bank primarily exists for receiving deposits and making loans. And a bank, in making loans, creates credit. Deposit a thousand rupee note with any bank and, under your very nose, the banker may lend the same note to another person. You cannot quarrel with him for that. He has agreed to make the money available to you whenever you want it, and he can keep his promise by maintaining a reserve of 15 to 20% of his total deposits. A banker must lend his deposits, or he cannot pay interest to depositors.

There is no country where even this business of banking in the proper sense of the word is not subjected to the severest measures of regulation and control.

CRISES

Crises, or trade oscillations, seem to be inherent in the capitalist system. They are not nature's crises, like our famines in the past. The reader's attention is invited again to the chart given on p. 22. The price of wheat at Delhi rose and fell, touching its maximum and minimum level in a period of 9-11 years. Agriculture revolves in a cycle, comprising good, bad and indifferent years, according to the seasons. Business in highly industrialised countries is also subject to periodical oscillations, but these oscillations, it is agreed, are unconnected with agriculture. Agriculture, on the contrary, has become the 'football of business.'

Trade fluctuations also occur in a cycle of a duration of about 11 years, with sub-cycles of 7 or $3\frac{1}{2}$ years.

A very thorough study has been made of trade cycles, and a voluminous literature exists on the subject. A particularly fierce controversy raged among world economists on the causes of the Great Depression of 1929-32. It surpassed all preceding depressions in regard to its intensity and duration, and it was world-wide in its sweep.

We have not forgotten the Great Depression yet. Wheat sold for less than Re. 1-8-0 per maund, and the price of *gur* was about the same. All agricultural prices fell. Our peasants were ruined; many a land-revenue payer in those days paid Government dues by selling the ornaments of his wife and children. For centuries India had been known as the sink of the precious metals. But a stream of gold began to flow out of the country at the end of the year 1931; between 1931-32 and 1939-40 net exports of gold amounted to 382 crores of rupees.

The Great Depression reduced the national income of many agricultural countries by one-half. It has been estimated by the League of Nations that the loss of money income in 24 countries in 1932 alone amounted to 62 billion dollars. The loss of real income produced was less, "but much of the agricultural produce was never sold and rotted on the farms." At the depth of depression the number of unemployed industrial workers throughout the world rose to 25 million. The number of partially employed agricultural workers might easily have been two or three times this figure.

The Great Depression disintegrated 'the whole

structure of international economic life.' World trade contracted by two-thirds. The last citadels of free trade fell. The international gold standard disappeared, and the economic system of which the gold standard was the visible symbol, *laissez faire*, vanished as if it never had been.

A new economic system arose on the ruins of *laissez faire*—a system of managed trade and controlled money and exchanges.

UNDER-CONSUMPTION & OVER-PRODUCTION

But why should trade fluctuations occur at all?

Production can exceed demand. By demand in this connection we mean effective demand, which is expressed in terms of purchasing power. Is it possible for the supply of wheat to exceed the demand for wheat in the sense of *want*? No. The hungry millions of India can consume all the surplus wheat of the world. During the Great Depression wheat was burnt as fuel in railway engines. Millions of bags of coffee were burnt and thrown into the sea in Brazil. Cotton was ploughed down in the United States, when it might have been used to provide adequate clothing to millions of people in India and elsewhere going about practically naked. The output of machines could not be disposed of at a profit. There were goods but no purchasers. How does that happen?

Let us take our own example. Our mills produce about 400 crore yards of cloth in a year. Suppose production trebled. Do we need 1200

crore yards of cloth, to clothe our people? We do. But if the output of cloth were really trebled, the purchasing power of the masses remaining unchanged, the price of cloth would fall so heavily that cotton-mill profits would vanish. It is not difficult to increase productive power under capitalism—round-about methods of production, as we have seen, are extremely productive. But consumption has a tendency to lag behind production.

Distribution of wealth under capitalism is extremely unequal. This inequality is the source of many fundamental maladjustments.

Suppose my income is Rs. 50 per month. Prices being what they are at present, saving out of a monthly income of Rs. 50 would be practically *nil*.

But if my income rose to Rs. 5,000 per month, saving would be involuntary. The higher one's income, the greater one's *power to save*. Suppose the *will to save* remains unchanged—that is to say, an individual continues to save the same proportion of his income, say 10%, as before. Then, if Rs. 5 was saved out of an income of Rs. 50, Rs. 500 would be saved out of an income of Rs. 5,000. But, in most cases, as income rises a higher proportion of income can be saved.

In technical language, introduced by the late Lord Keynes, the propensity to save and the propensity to consume are different for different classes of the community.

As capitalism develops, accumulation of capital proceeds rapidly. Capitalism does not impoverish the working class in the absolute sense, but they

get a smaller relative share in the increase in national wealth.

As savings grow, they are invested. Investment takes the form of machines, buildings and other durable capital. The productive power of the community, aided by inventions, grows apace. Soon a stage is reached when a highly industrialised country, like England, is compelled to seek markets abroad for its surplus manufactures. An empire is an economic asset. Trade follows the flag.

It has been argued by socialists, like J. A. Hobson, that if the distribution of wealth were made less unequal, the British people could consume all the products of British industry. Hobson is mistaken. Britain's industrial capacity exceeds the requirements of her own population, and foreign markets are indispensable to Britain. Britain may adjust her economy to national needs, but she cannot do so without substantially lowering her standard of living.

Complications arise when backward countries also begin to industrialise. Capitalism co-extensive with the whole world would produce an impossible situation. For, then, there would be no countries in which the surplus output of the most advanced countries could be dumped.

THE ROLE OF THE STATE

We have seen that under the capitalist system, in a progressive state, capital accumulation proceeds rapidly, producing a disequilibrium between production and consumption. The richer sections

of the community form a microscopic minority of the population, and they earn incomes which they cannot spend. The overwhelming majority of the people have restricted purchasing power, which limits their consumption.

Next consider the relation of savings to investment. All savings are not necessarily invested; I may hoard part of what I save. Thus savings can fall short of investment. Investment can also exceed savings, for in civilised communities, in modern times, savings are largely entrusted to banks, and the banks, as we have seen, enjoy the power to create credit.

When investment exceeds savings, more and more credit is granted by banks to their clients, business expands, output grows, prices tend to rise, and boom conditions prevail.

When investment falls short of savings, industry is depressed. At the bottom of a slump, investment comes to an end. Bankers have plenty of resources, for which they seek a profitable outlet, but borrowers are not willing to borrow.

It is generally seen that when the rate of interest is high, borrowing is discouraged. Conversely, when the rate of interest is lowered, more money is lent. But at the bottom of a slump even a low rate of interest fails to stimulate borrowing. Investment lags behind savings.

The conviction has grown among economists that an effective means of inducing recovery in a depression is a State-financed programme of public works. The budget may be used as an instrument of expansionist policy. The State may borrow

large sums, and pay off the debt over a series of years by means of heavy taxation of unearned income. The money obtained is used to create employment. Productive public works should be preferred, but there is no objection even to unproductive public works, or pyramid-building, so long as the unemployed are given something to do and thus enabled to earn money, which they will spend on consumers' goods.

A policy of creating employment through public investment has two aspects: on the one hand, national income is increased by the amount of the investment immediately, and, on the other, consumption is stimulated, which would cause further additions to the national income.

The reader already knows the distinction between capital goods and consumers' goods. Suppose the State invests 1 unit (our unit may be a rupee or a lakh or a crore of rupees) in capital goods' industries, e.g., machine-making of any kind.

The investment takes the form of buildings, machinery and raw materials. Producers get the money spent. Of this sum, suppose one-half is saved by them and one-half spent on consumers' goods. This means another addition of 0.5 to the income of producers. Of the addition of 0.5 to their income, the producers again save one-half and spend the other half on consumers' goods, and so on. The increase in producers' income is given by the series:

$$1 + \frac{1}{2} + \frac{1}{4} + \frac{1}{8} + \frac{1}{16} + \frac{1}{32} + \frac{1}{64} + \dots = 2.$$

We have assumed above that the propensity to save and the propensity to consume are equal,

each being equal to $\frac{1}{2}$, but the two fractions may be different. Suppose the propensity to save is $\frac{1}{4}$, that is to say, when the producers' (who include workers) income is increased by 1 rupee, they save $\frac{1}{4}$ th and spend $\frac{3}{4}$ ths of the increment in their income. The lower the proportion saved, the greater will be the amount by which national income will increase in the end. When $\frac{1}{2}$ is the fraction saved, as we have seen, national income will ultimately increase by 2, which is the reciprocal of $\frac{1}{2}$. When the fraction saved is $\frac{1}{4}$, the increase in income will be 4 and so on.

What we have explained above is not mere theory. It is a policy tested by experience. The depression was fought in Sweden and Germany, and fought successfully, by means of a programme of public works initiated by the State.

We began with a Sovereign who was concerned with nothing except defence, law and order, and erection and maintenance of certain works of public utility, and we end with a Sovereign who invests money in all kinds of public works, productive and unproductive to bring about conditions of full employment.

Our discussion faithfully represents the recent trend in economic thought. The old conditions, which inspired *laissez faire*, have passed away. *Laissez faire* is dead. It has been dead for some-time. Keynes formally announced the end of *laissez faire* in 1926.

CHAPTER III

PLANNING: CONTROL OF PRIVATE ENTERPRISE

We have rejected *charkha* economics as non-sense. *Laissez faire* is dead. The choice now lies between two kinds of planning—planning with State-owned land and capital, and planning with privately owned land and capital.

Soviet Russia is an example of a planned economy based on State-ownership of all means of production. Shall we follow Russia's example?

A social revolution may be desirable for its own sake ; it is not necessary for setting up a planned economy. Recent experience has shown that all the objects of planning—rise of national income, stability of purchasing power, a less unequal distribution of wealth, and avoidance of trade fluctuations—are capable of being achieved without State-ownership of means of production. In this book we are primarily interested in the economic structure of free India. If the control of private enterprise by the State can give us an economic structure for planning, we do not care for the social revolution. India is not ready for a social revolution which might bring a workers' State into existence. We have enough organised workers to create economic and political confusion in the country, but not enough to build a new State. Everything is possible if Stalin intervenes. But his hands are full at the moment. We must find a solution of

our problems independently of Stalin. This is not yet clear to Indian communists: a socialist revolution, without outside help will never be successful in our country. First, the masses are deeply religious. Second, landed property is widely diffused among the masses. Third, factory workers are an insignificant proportion of the total number of workers. Expropriation of expropriators is a good slogan, but it will make little appeal to the broad masses of the people, and may lead to a violent uprising of peasant proprietors.¹

The idea of a class-less society is pure Utopia. Soviet Russia is not a class-less society.² Property

¹ *Doctrinaire* socialism might well produce such consequences. Socialism drove Italian peasants into the arms of Fascism. Italy was a predominantly agricultural country and the peasants were deeply attached to the land they owned, as peasants in India. Ellen Wilkinson says in *Why Fascism* (pp. 31-32):—

"This fight against individual property in land could only be carried on in the teeth of the resistance of the peasants—and even the small tenant farmers would not back the socialists, because they wanted to become small land-owners themselves, and were hit by the rise in the labourers' wages. These people naturally became the advanced guard of the Fascists, especially as no attempt was made by the Socialist Party, dominated by town workers, to understand the peasant point of view. 'On the contrary, they supported a spiteful fight against these peasants which later on drove them into the arms of Fascism.'"

² Comrade Yvon, a French communist, went to the Soviet Union to assist in the work of 'socialist construction'. He worked in the Soviet Union in various capacities and rose to be a factory director. Altogether he spent eleven years in the country. He thus describes Soviet society before the second world war in *Ce qu' est devenue la Revolution Russe* (pp. 86-87):

"There are classes in U.S.S.R.: privileged classes and exploited classes,—classes which dominate and classes which are dominated.

"There standards of living are clearly distinguished.

"Classes on the railways exactly correspond to the social classes: the same is true of those on ships, in restaurants, theatres, shops; for some rise places on the most pleasant sites, for the others are wooden barracks near tool-sheds, and oily machines. Continually

is valued for the sake of income, and it is differences in income which create economic classes. These differences are inevitable, for the wages of a clerk and an engineer in a factory cannot be made equal without loss of efficiency.³ Soon after the restoration of order in Soviet Russia an attempt was made to abolish money, and to devise scales of wages, paid largely in kind, not on the basis of productivity but *need*. Russia tried to follow Marx, but failed.⁴ Where Russia failed we cannot hope

the same people occupy the places ; continually the same people live in the barracks

' There is no longer any private property , there is only one form of property, State property . But the State does not represent all citizens any more than in the preceding regimes

' This State property is enjoyed by a few , the great majority maintain it, embellish it, respect it, fear it and are separated from it by a police and a gigantic repressive machinery, more gigantic than which not long ago, separated the people from private property .

³ Mr Wendell Wilkie made a world tour during the war at the end of 1942 . In Russia he was introduced to a trained engineer, with whom he had the following conversation :—(*One World*, Cassel & Co, pp 47-48) :

' How does your pay as superintendent of this factory compare with the pay of the average skilled worker in the plant ? ' I asked him

' He thought for a moment . ' It's about ten times as much '

' That would be on the same ratio twenty-five or thirty thousand dollars a year in America, and actually was about what a man of similar responsibility in America would receive. So I said to him, ' I thought Communism meant equality of reward '

' Equality, he told me, was not part of the present Soviet conception of socialism. ' From each according to his capacities, to each according to his *work* ' was the slogan of Stalinist socialism, he explained, and only when they had achieved the Communist phase of their development would the slogan be changed to ' From each according to his capacities, to each according to his *needs* ' Even then, he added, complete equality would not be necessary or desirable "

When Communism comes, the State will also disappear . A communist regime can only be established by a world revolution, and for that we may have to wait for quite a long time

⁴ To increase productivity Russia adopted Stakhanovism, or payment of wages according to progressive piece-rates . Marx regarded piece-wages as ' a form of wages most in harmony with the capitalist mode of

to succeed.

But Russia has made a notable contribution to economic thought—she has demonstrated the possibility of planning.

Economic planning is an attempt to organise the whole economic life of a country according to a predetermined plan for the realisation of national aims. These aims may be partly political. In our case the question of arming for aggression and conquest does not arise, but we must possess armaments to defend our independence. Having developed sufficient power to maintain our independence, the whole of our resources and energies may be devoted to arts of peace.

Is it possible to plan without abolishing private enterprise and nationalising industries?

We may begin with an easy example. *Mithai* (sweets) is produced daily in Lahore, perhaps, by a few thousand *halvais* (confectioners), each working independently, and each owning his own instruments of production. To regulate competition among *halvais* and the production of *mithai* it is not necessary to nationalise this industry. The

production' (*Capital* Kerr edition, Vol I, p 608) What a representative of American capitalism thought of Russian industrialism is apparent from the following passage from Mr. Wendell Wilkie's *One World*, p. 45 :

" On the whole, the plant seemed to us American to be over-staffed. There were more workers than would be found in a comparable American factory. But hanging over every third or fourth machine was a special sign, indicating that its worker was a " Stakhanovite ", pledged to over-fulfil his or her norm of production. The Stakhanovites, strange as it may seem to us, are actually piece-workers, paid at a progressively increasing rate on a speed-up system which is like an accelerated Bedeaux system. The Russian industrial system is a strange paradox to an American. The method of employing and paying labour would satisfy our most unsocial industrialist."

halvais may continue to own their pots and pans and yet be forced to work according to the direction of the State.

There is rationing of sugar. *Mithai* cannot be made without sugar. By increasing or reducing the sugar ration the State can regulate the amount of *mithai* produced. If the State decided to give no sugar to *halvais*, no *mithai* would be made. Actually, no *halva* is made from *suji* or *rava* because the *halvais* get no quota of these commodities. They get no *maida* either, and certain articles in the production of which *maida* is an essential ingredient have disappeared from *halvai's* shops.

We have no association of *halvais*. Supposing all *halvais* were members of a Syndicate, then their activities could be more easily controlled. The State, then, would not have to deal with individual *halvais*, but only give orders to the Syndicate. An association of workers or employees engaged in the same trade is called a horizontal combination. Horizontal combinations may be formed in other trades allied to the production of *mithai*, e.g., milk, *ghee*, sugar, and then we may bring the different horizontal combinations together in one vertical combination. A vertical combination unites different stages of production of a commodity in a single organisation. Through horizontal and vertical combinations prices may be fixed at each stage of production, and the quantity and quality of each product controlled.

At the present time, the production of food-stuffs, and their distribution and prices are under control. Our food supply is planned, and this is being done without nationalising agriculture. Cul-

tivators may be encouraged, and even compelled, to grow more food-crops and less commercial crops without abolishing the right of private property in land, cattle and agricultural tools and implements. By an efficient system of procurement the State may acquire the surpluses of certain areas to meet the deficits of other areas. Dealer's profit at each stage may be fixed, so that food is rationed to the consumer, bakers, and others at fixed prices. All this is not a matter of theory. This is what is actually being done. But for State-control, which includes the regulation of imports and exports, millions of people would have died of starvation in the deficit areas in 1946, as they actually did in 1943 in Bengal.

Agriculture is largely carried on in our country as a mode of living, not for profit. Most of our farmers work on a small scale, which makes the modernisation of agricultural methods and practices difficult. If the right of property in land were abolished, cultivation on a large scale with power-driven machinery could be introduced. But there is an easier method of achieving the same goal. Absentee landlordism can be dealt with by legislation. In taxation the state possesses an instrument which, used with determination, can rid the country of parasitic landlords. The State may, in the first instance, undertake to pay the landlord's share itself, receiving it from the tenants. Then the State may, through taxation, reduce it to any extent desired. A tax equal to 100 per cent of net assets, in the case of idle or absentee landlords, would end such landlordism.

Cultivators may be encouraged and even compelled to work together. Joint or co-operative farming has been tried successfully in other countries (*e.g.* Palestine). Individual peasants owning a few acres cannot use expensive machinery. The State may provide the machines on hire to co-operative farmers. All the advantages of modern agricultural methods may thus be brought within the reach of the peasant.

Action on these lines has to be taken sooner or later. We cannot stand still. Our agriculture, under present methods of farming, is not meeting the requirements of a rapidly growing population. Food-supply can be increased by bringing more land under cultivation. But the population has not only to be adequately fed, but fed at a reasonable cost. Present food prices are atrocious, considering the general level of the country's income. Lower prices do not necessarily mean less profit for the producer, provided improved methods of production bring down costs. Agricultural costs can be substantially reduced by the adoption of improved farming technique. Take bullock cultivation as an example. Bullocks have to be fed for a whole year, while they actually do not work for more than three or four months in a year. Then, under existing conditions, the number of bullocks varies inversely with the size of the holding—that is to say, as the holdings grow smaller, the number of bullocks per 100 acres of net sown area increases. The cost of maintaining bullocks forms a considerable proportion of the total cost of production and it is rising with the progressive diminution in the

size of the holding. Under co-operative large-scale farming bullocks may be largely replaced by tractors. A tractor requires to be fed when it is working, not when it is idle.

The Great Depression of 1929-32 ruined our peasants. World prices of food-stuffs and raw-materials fell heavily, but our costs of production were inelastic. As a result agriculture became unprofitable over large parts of the country.

Agriculturists made money during the war, but high food prices are a heavy tax on the consumer. They also raise industrial wages and weaken our power of competition in world markets. The price of industrial raw materials and food must be lowered. Agricultural planning can do so. As at present, price-control and rationing can stabilise agricultural incomes and prices and insure an equitable distribution of supplies. Taxation can limit the share of the non-worker, or even abolish it altogether. For agricultural progress and planning the nationalisation of land is not essential.

The control of industrial output and prices is rendered easier by the growth of large-scale production. The State can assist the cartellisation of industry. Where necessary, rationing may be introduced, retained or developed. As we shall presently see, wages, profits, and interest can be stabilised at desired levels. Through exchange control, integrated with trade controls, imports and exports can be regulated. The whole industrial machine can work under Government orders. It actually did during the war ; it can do so in times of peace, once we get rid of the idea that it is

the birth-right of the individual capitalist to invest his capital as he pleases, to produce what he pleases to make whatever profits he can and by whatever devices he chooses to employ. The capitalist may be permitted to own his capital, but he can be forced to work in the interests of the community under conditions rigidly determined by the Government. For industrial planning, again, nothing is less essential than the nationalisation of capital.

WAGES

Industrial peace is disturbed because workers believe that wages are not 'just'. A 'just' wage from the point of view of labour may not be 'just' in the opinion of the employer. There would be little objection to letting labour and capital fight it out between themselves if the general interests of the country were not involved. A railway strike disorganises trade and industry, and apart from the inconvenience caused to the public, inflicts enormous losses on business men. In India, under the Trade Disputes Act, workers employed on monthly wages in public utility services cannot go on strike without previous notice. Having given due notice, workers in any postal, telegraph or telephone service, any undertaking or business which supplies light or water to the public, and any system of public conservancy or sanitation, may keep away from work as long as they please, or can hold out.

A 'just' wage is not the highest wage demanded by labour, and it is not the lowest wage that a

capitalist would be pleased to give. A 'just' wage may be determined, not by labour alone, nor by capital alone, but by both together with the assistance of the State.

This is how the problem of a 'just' wage was solved in democratic England during the war. In the course of a debate in the House of Commons on November 27, 1940, Mr. Bevin, Minister for Labour, said: "The Government had succeeded in settling a problem in industry that had baffled every one for generations, namely, to put the wages in the tool-room right and to get skilled men in the right place."

If Government can put men in the right places and give them the right wages in a time of war, it can do so in times of peace as well.

If you admit the right of labour to paralyse all communications and transportation, even when there is risk of death by starvation in deficit food areas, then there is nothing more to be said about it. Let us have class-war and more and more of it. But if it is only a question of just wages, then the problem is not insoluble.

The first step will be the compulsory organisation of workers into unions. At present while some workers are organised, others are not. The result is that while in certain cases the rise of prices has been neutralised by the rise of wages, in other cases workers, particularly in private service, are compelled, and have been compelled during the past six or seven years, to practise 'forced saving'. One practises 'forced saving' when the rise of prices compels one to economise

expenditure, income having remained practically constant. The worst sufferers are 'black-coated' workers, the *safaid posh* class, who are prevented by their sense of respectability from staging strikes and demonstrations.

Having organised all workers, and thus enabled them to present their case, wage-determination may be entrusted to wage-fixing boards. Wage-fixing is a highly technical job, for wages in any trade or occupation must be related, not only to the conditions of work, prices and profits in the trade or industry concerned, but in allied trades and occupations, and to the general scale of wages and incomes in the country. Several principles are observed in the wage-fixing, the most important being the capacity of the industry to pay. Another principle is uniformity of wages within the same grade. A third principle is fair margins between different grades. Obviously skilled and unskilled workers cannot be paid at the same rates—they represent different grades of labour. A fourth principle is that of variation in wage-rates with changes in the cost of living and other conditions.

If prices rise, money wages remaining constant, real wages fall. Real wages mean the purchasing power of wages in terms of goods and services. Wages should rise, but by how much? It is necessary to measure the rise in the cost of living. Changes in the cost of living are not accurately indicated by index numbers of wholesale prices. All goods do not enter into the consumption of the working classes; we are concerned only with goods on which working class income is spent, and

retail prices are the prices which consumers actually pay, not wholesale prices. For wage-fixing, then, we must possess index numbers measuring changes in the cost of living as accurately as possible. Again, for different classes of workers, different sets of cost of living index numbers will have to be constructed. The requirements of primary school teachers, for example, are different from those of factory workers. In a large country like India, each Province or economic region must compile its own index numbers of cost of living.

It will be the duty of wage-fixing boards to examine all the relevant data, including the conditions of supply and demand for labour, and thus determine 'fair' rates of wages at a given time. Appeal from their decision should be allowed to Labour Courts, and we may also set up a Supreme Court of Arbitration. The final decision of the Supreme Court must be accepted by the parties concerned

That is how industrial peace may be secured. All this is nothing new. Compulsory arbitration has been tried in Australia and New Zealand. As we have said already, Britain solved the problem of wages in war-time. We may solve the problem of wages in the same way in peace-time.

There is labour unrest when prices fluctuate violently. When prices rise, employers are reluctant to grant increments in wages. When prices fall, workers resist wage-cuts. Given stable prices, a goal capable of achievement in a planned economy, causes of friction between labour and capital would be minimised. One may expect

a steady rise of real wages in a planned system with increase of productivity and expansion of output.

INTEREST AND PROFITS

Marx, the founder of 'scientific socialism', condemned interest and profits as robbery and exploitation. Both are necessary payments. Interest exists in the Soviet Union and, before the last world war, the rate of interest was considerably higher in the Soviet Union than in the United Kingdom or the United States.⁵ Profits exist in the Soviet Union in the form of factory superintendents and directors' salaries and other forms.

What is interest, and why can it not be abolished? If interest were actually obtained by force and fraud, it would not persist in the Workers' State.

There are some individuals who never leave their house without a considerable sum of money on their person. Most of us carry a little money in our purses. It gives us a sense of confidence, or security. It makes us 'liquid'. Money is purchasing power; having money in your purse, you can

⁵ Sir Walter Citrine visited Russia at the end of the year 1935. He says in his *I Search for Truth in Russia*, p. 395.

" From time to time the Soviet Government floats loans, just as do the Governments of other countries, and offers interest to those who are ready to invest their money. Such loans have been floated on several occasions during the past ten years, and the interest has varied from issue to issue. As far as I can recall, it has never until recently been below 8 per cent., and has risen as high as 10 per cent. Whenever a new loan is floated a good deal of pressure is used to induce the workers to subscribe, and I was told quite frankly by Trade Union officials in Russia that the individual worker is expected to invest at least three weeks' wages in each of such loans "

readily turn it into present goods or services. Suppose I borrow Rs. 100 from you. Then you cease to be 'liquid' to that extent. A loan, then, cannot be made without sacrificing 'liquidity' and interest may be viewed as the reward for parting with 'liquidity'.

Where preference for liquidity is high, the rate of interest will be high. But there is some preference for liquidity everywhere; the difference between one country and another in this respect is one of degree only.

A rise in the rate of interest encourages savings, but not in all cases. Suppose I want an income of Rs. 6 a year, and nothing more, to live upon when I retire from active work. If the rate of interest is 3%, then I must save Rs. 200. If the rate of interest were to rise to 6%, to enjoy an annual income of Rs. 6, I would save only Rs. 100, or less, not more than before. There would be some saving even if the rate of interest were zero or negative, for one does not, in all cases, save for the sake of interest. But, on the whole, a reward for parting with liquidity encourages saving.

Savings can be profitably employed, and that is how interest can be paid. Capital is productive. The Soviet Government could not pay 8% on its loans if it were not able to earn more by investing the money in State enterprises.

Government can stabilise the rate of interest. Government itself is the largest borrower, and it borrows at a certain rate of interest. Government freely uses its power to reduce the rate of interest on a loan which had been taken at a high rate of interest. This is called 'conversion'.

Government wishing to lower the market rate of interest, may lower the rate of interest on its own loans. The market will respond, for in this matter Government sets the pace. When Government is borrowing large sums at high rates of interest, the market rate of interest invariably rises.

Interest is one of the elements which constitute gross profits. A second element is compensation for risk. This is seen very clearly when we consider the yields of securities, ranging from Government securities, or gilt-edged securities, at the one end, to highly speculative industrial shares at the other. A debenture holder is a fully guaranteed creditor. He accepts a comparatively low rate of return. An ordinary share-holder runs a greater risk than a preference share-holder. On the whole, therefore, the ordinary share-holders earn greater rewards. Certain stocks carry a Government guarantee ; their yields are low.

One can always earn more by investing in industrial shares than by depositing one's savings in a bank. This is on account of the assumption of greater risks. A share-holder is correctly described as a sleeping partner, but even a sleeping partner is entitled to something more than the rate of interest on deposits—he has ventured to make his capital available for industry.

The profits of enterprise, in the proper sense of the term, are a peculiar payment. They are quite distinct on the one hand, from interest on borrowed capital and payment for insurable risks, and on the other from earnings of management. The French term for the employer or the enterpriser is

entrepreneur, not the undertaker who arranges a funeral, but the undertaker who creates a business undertaking and runs it. Undertakers' profits are called 'pure' profits; they are a feature of dynamic conditions, of economic change and progress. Improvements in methods of production, invention, sudden alterations in demand and supply cause 'pure' profits to emerge, and sometimes they are very high. But there are 'pure' losses also. On the whole, probably, the amount of 'pure' profits earned by the *entrepreneur* class is not very great. The point which deserves attention is that a planned economy contains more elements of stability than instability, more certain than uncertain elements. Given fixed prices of raw materials, fixed wages, controlled imports and exports, and a stable rate of interest, conditions of industrial production would be 'static' rather than 'dynamic'—for the growth of demand due to the growth of numbers can be easily allowed for. Under such conditions, pure profits would tend to a minimum. A planned economy may eliminate them altogether. But profit in the sense of earnings of management would remain. It is a part of cost of production even in the Soviet Union.

In a planned economy the distribution of profits is limited by a Dividends Limitation Law. Suppose dividends cannot be distributed at a higher rate than 6%. Excess profits may be lent to Government or, with Government permission, reinvested in the business. Capital issues may be controlled, as was actually done in India during the war. Thus devices exist which enable the State to control both

the volume and the direction of investment. That instruments of production in the shape of machines are privately owned is no obstacle to planning, since Government is able to fix the capitalist's reward and determine the use which he shall make of his capital.

SHORT-TERM CREDIT

Short-term credit for trade and industry is provided by banks. A planned economy cannot permit the banking system to grow under the influence of unregulated competition.

We learn from Sir Chintaman Deshmukh, Governor of the Reserve Bank of India, that the number of new banks opened during the past year was 400, making a total of 3,115 offices as on the 30th June, 1946. In this connection Sir Chintaman said ('*Tribune*', dated August 7) :

"While this was satisfactory in a way, it must be recognised that a proportion of the new offices had been opened in areas remote from the main sphere of the bank activities. Offices had also been opened in areas already over-banked, leading to an unhealthy competition for a limited volume of business."

The complaint of over-banking is not new. There was an enquiry into banking conditions in India in 1929-31 by Indian committees, Central and Provincial. The Government of India also appointed six foreign experts to assist the Central Committee in coming to their conclusions.

The foreign experts differed from the Central

Committee on some very important issues, for example, that of industrial banking, and also on a very simple question, that of inadequacy of banking facilities in India. They said:

"The question whether the banking facilities of India are sufficiently large for the economic needs of the country, has, in the Enquiry [by the Central Committee] been unanimously answered in the negative by the non-bankers. This criticism cannot be fully upheld from an expert point of view, for the decision cannot lie exclusively with the statement that demands for more or cheaper credit are not satisfied in many localities."⁶

The 'non-bankers' thought that India was inadequately supplied with banking facilities. The bankers, that is, the foreign experts, were of the contrary opinion. Bank deposits were increasing slowly, if at all. "It is even doubtful", said the experts, "whether or not some upcountry places are rather over-banked. There is a danger in too many banks or branches competing in a locality as it leads the weaker banks to offer higher rates for deposits, and accordingly to give loans at higher rates and increased risk."

This is precisely the complaint of Sir Chintaman Deshmukh.

Admitting that at present, as 15 years ago, some places are over-banked, it is equally clear that many more places in our country are under-banked. India with a population of about 400 millions has a total of 3,115 bank offices. The statement given

⁶*Majority Report of the Central Banking Enquiry Committee*, p. 626.

below is useful for comparative purposes :

NUMBER OF COMMERCIAL BANKS AND
BRANCHES

Country and year	Number of banks	Number of branches and sub-offices
Belgium ... 1937	122	1,083
France ... 1937	8	2,070
Sweden ... 1940	28	1,002
England and Wales ... 1937	15	10,097
.. .. 1943	13	8,279
U.S.A. ... 1943	14,084	...

In 1940, the United States had a population of about 132 millions, England and Wales 42 millions, France 41 millions and Sweden 6·5 millions. In 1939 Belgium had a population of less than 8·5 millions.

Considering the area and population of India, our banking facilities do not compare favourably with those in the countries mentioned above.

The contrast between the number of banks in England and Wales (13 in 1943) and the United States (14,084) is striking. The United States has failed to develop branch banking. Amalgamation has reduced the number of banks in England and Wales. The number of banks was 104 in 1890 with 2,203 branches and 26 in 1915 with 6,027 branches.

Most of our banks are pygmy institutions. The question is worth considering whether banking legislation which encouraged amalgamation and thus brought powerful banks with numerous branches into existence, would not be in the best interests of both the banks and the general public. The State might then assist banks in opening new branches in under-banked places by means of subsidies. Compulsory insurance of deposits has never been discussed in India. Such insurance to a maximum of, say, Rs. 5,000 of any one depositor in any one bank, would protect all but the biggest depositors and enormously increase the confidence of the public in joint-stock banks. The maximum limit is 5,000 dollars in the United States.

Competition among banks at present is unregulated, with the result that the whole banking system is developing haphazardly, without plan. When the number of banks has been reduced by amalgamation, their activities could be more easily controlled. The opening of new branches would then proceed systematically. Under present conditions there must be 'over-banking' in some places and 'under-banking' in many more places—not a commendable state of affairs.

LONG-TERM CAPITAL

A planned economy, such as we contemplate, will also organise the supply of long-term capital for industries. At present we have no large agencies for attracting capital for this purpose.

In his last budget speech Sir Archibald Rowlands

made a reference to this subject :

“An advanced stage of preparation has been reached in respect of the establishment of an Industrial Finance Corporation in order to ensure the availability of medium and long-term credits to industrial enterprise in India where the more normal methods of industrial finance are inadequate.”

No big industrial advance, whether in a planned or unplanned economy, is possible without the provision of adequate credit facilities for industry.

The Central Banking Enquiry Committee, whose report was published in 1931, recommended the establishment of Provincial Industrial Corporations with Government assistance. The share-capital of a Provincial Industrial Corporation was to be raised mainly by public subscription, but Government were to borrow and supply any deficiency. Apart from Provincial Industrial Corporations, the Central Banking Enquiry Committee recommended the establishment of an All-India Industrial Corporation, which was to serve as a link between Provincial Governments and the large spending departments of the Central Government and to secure direct correlation for the industries as a whole with railway rates, customs, stores purchase and other policies of the Central Government. No action was taken by the Government of India on these recommendations. Very probably the Government of India agreed with the foreign experts associated with the Committee, who said:

“Practical experience proves that a company

with a certain purpose ought not to be formed without an immediate constructive object. As the saying goes 'one ought not to buy a frame before the picture.' When some industrial plan fitting in the frame, as designed here, offers itself, then the time has come to start an Industrial Corporation."

We had no use for the frame 15 years ago as the picture was non-existent !

Well, a planned economy furnishes as good a picture of industrial advance as one may desire. We want Central and Provincial Industrial Finance Corporations, and other institutions, for promoting and diversifying investment.

Sir Archibald Rowlands also referred to a National Investment Board.

"With a view to securing the fullest and most advantageous utilisation of the economic resources of the country in the interests of planned development, investigation is required to determine whether a National Investment Board should be set up for the purpose, and if so, how it should be constituted and on what basis it should work. Meanwhile the existing control over capital issues must necessarily be continued."

It is not quite clear what kind of an Investment Board the Finance Member had in his mind. An Investment Trust is to be distinguished from a Managing Trust. The Managing Trust, like the Holding Company, is concerned with a single industry and its subsidiaries. The Investment

Trust operates in a wider field. Its object is to diversify investment.

Investment Trusts have two principal forms, the ordinary Investment Trust, and the Fixed or 'Unit' Trust. Both forms of Trusts enable the small investor to get a better return on his money with less risk than he would be able to do otherwise.

If you have spare money, you may buy and sell securities with it. There is a certain amount of risk that you run, for industrial securities rise and fall in value daily, and sometimes experience violent fluctuations. If one had considerable resources, one would buy shares of many different companies, so that a fall in the yield of some shares might be compensated by a rise in that of others. This is the principle on which the 'fixed,' or 'Unit' Investment Trust works. With the money placed at its disposal by investors, the 'Unit' Trust buys a fixed bundle of mixed securities — this bundle is its 'unit.' Any single security might vary considerably in yield, but the 'unit', bought by the Investment Trust, comprising varied securities, might be trusted to yield a more regular income. The 'Unit Trust,' having bought its 'unit', has to do nothing more, except to collect the dividends and to distribute them among its own subscribers.

The ordinary Investment Trust is interested not merely in the yield of securities but their capital value. Unlike the fixed or 'unit' trust, it sells out some securities and buys others, both for the sake of better yield and appreciation of

capital value. But an increase in capital value is never distributed among subscribers as profits; it is added to reserves for meeting possible depreciation of securities.

The advantage of Investment Trusts is three-fold: (1) the investor is able to spread his risk over a number of concerns, (2) capital flows into industries under expert guidance, (3) there is diversification of investments.

The State may assist banks to establish investment trusts or establish them itself.

FOREIGN TRADE

Even in a *laissez faire* regime there is some attempt to regulate imports. This is done by means of the tariff. Light duties, imposed on imported goods for the sake of revenue, do not restrict the freedom of the consumer to buy in the cheapest market, but heavier duties may be imposed on particular goods to protect domestic industries. Even free traders like Adam Smith and John Stuart Mill made some exceptions. Adam Smith praised the Navigation Acts as 'perhaps, the wisest of all the commercial regulations of England' on the ground that 'defence is of much more importance than opulence.' John Stuart Mill favoured the protection of selected infant industries. Free trade, however, disappeared from the world in the nineteen thirties, and in many countries imports were controlled not only by means of the tariff but quantitative restrictions or quotas.

Quantitative trade controls were an integral

part of war economies between 1914 and 1918. Their removal, on account of their hampering effect on international trade, was recommended by the Brussels Conference (1920) and the Genoa Conference (1922).

For a very short period there was relaxation of quantitative trade controls, but the movement was arrested by the agricultural depression of 1929. The 'fateful year', 1931, saw the reimposition of quotas and the reintroduction of licensing and prohibition in several countries. At the end of 1932 no less than 11 countries of Europe had a full-fledged quota system in force. Quotas became an accepted instrument of commercial policy, a means of protection and an integral part of recovery programmes. We made use of quotas to restrict imports of cotton piece-goods from Japan. In 1937 the percentage of total value of imports subject to quotas varied from 8 in the United Kingdom to 58 in France.

A quota rigidly fixes imports in the upper direction. For example, Japan was not permitted to send us more than 400 million yards of cotton piece-goods. A tariff imposes no limit on the quantity of imports—it is not a measure of quantitative control.

Quotas or quantitative restrictions are a more effective means of limiting imports than a tariff. Even if the tariff is high, imports may subsequently tend to increase. There may be a fall in cost and price abroad, which would increase the competitive power of the foreign country and reduce the burden of the tariff. If cost and price at home rise the old

rate of duty would grant less protection. The tariff, in particular cases, may be partly or wholly neutralized by an export premium granted by a foreign government. A reduction in sea-freights would lead to greater imports. Finally, if national income at home rises, more foreign goods may be bought even at a higher price. Under a tariff one can never be certain of the quantity of imports which will still come in. Quotas give certainty.

A planned economy may enter into bilateral trade agreements, which balance imports and exports, so that no foreign exchange is required for the payment of surplus imports. Goods may be bartered directly against goods. Bilateral transactions may include not only imports and exports of goods but services, and payment of debt and interest on debt.

Ordinarily trade is multi-lateral. We may be a debtor country in our trade with the United Kingdom, but a creditor country in the trade with Europe. We may thus pay our debts to the United Kingdom with the proceeds of surplus exports to European countries.

EXCHANGE CONTROL

A rate of foreign exchange expresses the value of the currency unit of one country in terms of the currency unit of another country. A rupee is equal to 18*d.* sterling.

Our sterling balances represent accumulated reserves of foreign exchange, which we may use to

make purchases in the United Kingdom and other countries.

Foreign exchange is acquired by the export of goods or services.

Exporters have claims on foreign countries, which importers buy to pay their debts abroad. When the balance of payments is against a country, gold is exported.

In a planned economy nothing is exported or imported without the permission of the State, and the balance of payments is so managed that no gold has to be exported or debts incurred abroad.

Foreign exchange transactions are centralised to prevent the flight of capital. Another object of exchange control is to regulate imports.

The controlling authority has four decisions to make : (1) how much to allocate for different *purposes* (commodity imports, debt service, tourist traffic etc.), (2) how to distribute exchange available for imports among different *commodities*, (3) how to ration exchange among different *firms* and (4) how to distribute the total among different *countries*.

There is a limited amount of foreign exchange available. Given the amount of foreign exchange, its allocation has the most profound effect on home production. If manufacturing firms, which rely on imports of foreign industrial raw materials, were not allocated sufficient foreign exchange for the purpose, they would cease to work. The exclusion of other imports would have a stimulating effect on the home industries concerned.

The League Report entitled *International*

Currency Experience, says: "A distinction has sometimes been made between exchange control and other forms of trade regulation, such as tariffs and quotas, on the ground that the former restricts payments for imports, while the latter restricts the actual movement of goods. The evolution of exchange control has tended to obliterate the distinction or to preserve it only in a legal sense." (p. 175).

In a legal sense exchange control is different from trade regulation, but in practice the one is inseparable from the other, or the one involves the other—such is international currency experience of the nineteen thirties. At first the two controls were worked independently. Traders were at liberty to import whatever they wished under the given tariff or within the prescribed quota. But when it came to paying for the imports, there were difficulties. Their exchange applications 'were met only in part or only after a long delay.' "As a result," says the League Report, "there was a marked tendency for exchange and trade controls to be more closely integrated. Imports were not admitted at all unless the importer could show the Customs officers an exchange permit guaranteeing the allocation of foreign exchange in payment for them."

The meaning is clear. Confusion arises if exchange control and trade control are operated independently. The two controls must work in unison.

We have, in this chapter, briefly reviewed the mechanism of controlling private enterprise when

planning is undertaken. Planning is a practical application of Socialism. The main, positive content of Socialism is planning, not State ownership of the means of production. Nationalization of land and capital is advocated by socialists, not for its own sake but for planning. But recent world experience has shown, and this is also our own war experience,^a that there is no aspect of economic life or activity which cannot be directly and effectively controlled and regulated by Government.

^a A war economy is a planned economy. The reader may be reminded of the wide powers of control assumed by the Government during the war. Under the Defence of India Rules the Central or Provincial Government was empowered to

1. regulate or prohibit the production, treatment, keeping, storage, movement, transport, distribution, disposal, acquisition, use or consumption of articles or things of any description whatsoever ;

2. collect any information or statistics with a view to the rationing of any article essential to the life of the community ;

3. control the prices at which articles or things of any description whatsoever might be sold or hired ;

4. regulate the letting or sub-letting of any accommodation, whether residential or non-residential, whether furnished or unfurnished and whether with or without board.

Rents were controlled.

The Government, Central or Provincial, could require any employers or class of employers to supply to all or any class of their employees (and their dependents) food or foodstuffs in specified quantities and at specified prices.

The Central or Provincial Government was empowered to authorise any person to exercise, with respect to an existing undertaking, or any part thereof, specified functions or control. Any person having any functions of management in relation to the undertaking, or part thereof, was required to carry out the instructions of the authorised controller. Capital issues were controlled.

Foreign trade did not become a Government monopoly, but nothing could be exported or imported without license. There was exchange control. Speculation was controlled. Almost each day brought a new Ordinance concerned with the control of production and distribution of goods. These controls ended the free play of supply and demand in value determination.

Planning will not produce a class-less society ; nor does Socialism. Planning, as we have seen, can end the exploitation of the worker by the non-worker as effectively as Socialism. Planning is not international socialism, but Stalin's socialism is also 'socialism in one country'.

The mechanism of control having been brought into existence, the State may employ its own means to put industry into motion and create new wealth. The role of 'created money' in planning forms the subject of the next chapter.

CHAPTER IV

PLANNING : THE ROLE OF 'CREATED MONEY'

An event of outstanding importance in the economic history of India was the publication of *A Plan of Economic Development for India* in 1944. The Plan is the work of eight leading industrialists, all Bombay men, with one exception.

The object of the Plan is to double the present *per capita* income within a period of 15 years. To achieve this result the net output of agriculture is to be somewhat more than doubled, and that of industry increased approximately five times. The total capital required to carry out the Plan is estimated as shown below :

		<i>Crore rupees</i>
Industry	....	.... 4,480
Agriculture	....	.... 1,240
Communications	....	.... 940
Education	....	.... 490
Health	....	.... 450
Housing	....	.... 2,200
Miscellaneous	....	.... 200
		<hr/>
Total	....	.... 10,000
		<hr/>

The details of capital requirements for agriculture are the following:

	<i>In crore rupees</i>	
	<i>Non-recurring expenditure</i>	<i>Recurring expenditure</i>
Soil conservation etc.	200	10
Working capital ....	....	250
Irrigation : Canals	400	10
Wells	50	....
Model farms	195	130
	<hr/>	<hr/>
Total	845	400
	<hr/>	<hr/>

Communications include railways, roads (new construction and reconstruction) and ports.

The capital requirements for industries are estimated on the basis of net industrial output which will be attained 15 years after the Plan has come into operation (2,240 crores). The ratio of capital (including land and buildings) to net production is taken as 2.4. Thus the total capital required to produce a net output of Rs. 2,240 crores is $2.4 \times 2,240 = 4,280$ crores.

Both large and small-scale industries are to be developed. But the Plan lays emphasis on the basic industries, *e.g.*, power (electricity); mining and metallurgy (iron and steel, aluminium, manganese, etc.); chemicals (heavy chemicals, fertilizers, dyes, plastics, pharmaceuticals etc.); armaments; transport (railway engines and wagons, ships, aircraft and automobiles); and cement.

The basic industries are to be developed as rapidly as possible. The consumption goods industries mentioned in the Plan are textiles (cotton, silk and wool), glass, leather, paper, tobacco and oil.

Adequate scope will be provided for cottage and small-scale industries: "This is important not merely as a means of affording employment but also of reducing the need for capital, particularly of external capital, in the early stages of the Plan."

The sources of finance are thus summarized :

	<i>Crore rupees</i>	<i>Crore rupees</i>
<i>External finance</i>		
Hoarded wealth	.... 300	....
Sterling securities	.... 1,000	....
Balance of trade	.... 600	....
Foreign borrowing	.... 700	2,600
<i>Internal finance</i>		
Savings	.... 4,000	....
'Created money'	.... 3,400	7,400
		<hr/>
Total	.... ....	10,000

Our hoarded wealth is estimated at about 1,000 crores. Of this not more than 300 crores may become available for the purposes of the Plan.

Our sterling balances now exceed 1,500 crores, but the amount available for planning will not probably exceed 1,000. Britain may not honour her debt in full.

The Plan will raise national income. Assuming that 6 per cent. of the national income becomes

available for investment, savings would provide 4,000 crores over the whole period.

There is 3,400 crores of 'created money' in the Plan.

The financing of economic development by means of 'created money' is likely to create a gap between the volume of purchasing power in the hands of the people and the volume of goods available. In other words, prices will tend to rise. "During this period, in order to prevent the inequitable distribution of the burden between different classes which this method of financing will involve, practically every aspect of economic life will have to be so rigorously controlled by Government that individual liberty and freedom will suffer a temporary eclipse." The *Memorandum* adds tersely: "Planning without tears is almost an impossibility."

Before the Plan is put into execution a thorough survey of our soils, water-power resources, geological wealth etc. will be necessary. But, probably, most of the raw materials required for the Plan would be available within the country. Till adequate supplies of trained labour become available, India will have to import technicians. Capital goods will have to be imported in the beginning. There is no lack of managerial ability in India.

The Bombay Plan is India's first attempt to think on constructive lines (ignoring the 'constructive programme' based on *gur*, *charkha* and *khaddar*.) The attempt has elicited little praise in Congress circles for obvious reasons—it is very different from *charkha* economics. A study of the

first reactions of the British Press in India and England to the Bombay Plan is interesting. To put it mildly, the trustees of our welfare were not pleased. Motives were attributed to the joint authors of the Plan, who represent 'big business'.

According to the *C. & M. Gazette*, Lahore, the political warp and woof of the Plan showed 'little or no trace of any desire to raise the standard of life of the teeming masses.' The war created opportunities for Indian capitalists which they were not slow to take advantage of—they made 'huge profits by the manufacture and sale of poor imitations of consumers' goods which, in normal times, were imported from abroad. That was a tribute to their opportunism, not their patriotism. These opportunists were now seeking the perpetuation by artificial means of the same conditions. "To such men India is seen as a closed preserve for exploitation by themselves."

The clear duty of the British Government in these circumstances was to save the Indian people from exploitation by their own kith and kin. The London *Economist* (which inspired the comments in the Lahore journal) said :

"The moment may have even come when English socialism and Liberals, who so long demanded the end of Imperialism, may request its continuance in some form to save the Indian people from Indian exploitation."

The London *Economist* seemed to approve of the movement associated with Mahatma Gandhi's name :

"Mr. Gandhi foresaw the present situation long

ago when he determinedly set his policy, not towards national strength and material wealth but towards national freedom in the old traditional and spiritual ways of poverty and good life."

CREATED MONEY

'Created money' in the Plan furnished an easy target for criticism. The Plan was regarded with considerable misgiving in academic circles on account of the dangers of inflation associated with 'created money'. In the course of his budget speech in March, 1944, the Finance Member confessed "to a feeling of misgiving regarding the extent to which the financing of post-war development could be based on 'created money'".

Proceeding further he said :

"In so far as development projects are concerned with capital investment, a time-gap will necessarily intervene in the interval between investment and final completion, during which time no addition to the national income in real terms will take place to offset the inflationary effect, and by the end of that time, prices will already have risen again. If development projects, such as education and public health, are to be financed in this way, the effect will be still more marked..... I must say in justice to the authors of this proposal that they are aware of the dangers involved and propose to counter these effects by drastic over-all controls imposed by a strong Central Government.

"This would mean that the public which had perforce to submit to control in war-time when the fact of shortage was inescapable, should accept the continuance of controls prolonged over a far longer period after peace returns....It would surely not be wise to force the pace of post-war development at the cost of imposing such severe limits on the standard of living during the development period, at the cost of further accentuating the disparities of wealth which inflation inevitably entails, or at the risk of a financial and economic collapse before the objective itself could be reached."

Certain sections of the Indian press and some leading Indian economists also distrust unorthodox methods of finance. The Bombay Plan was condemned as 'reconstruction through inflation.'

WHAT IS INFLATION ?

Now we must have clear ideas about inflation. Take away 'created money' and the Bombay Plan falls. Without 'created money' the country cannot be rapidly industrialised. We have two examples of planning, in Russia and in Germany. In both cases economic reconstruction on a stupendous scale was carried through—with 'created money'. The enormous sums required for building up heavy industry and for other purposes cannot be obtained in India through internal borrowing. We may be able to raise large loans abroad. But we have only recently won our freedom from the

slavery of foreign capital. Russia carried through her plans without borrowing a pie of foreign money. So can we.

Under certain conditions 'created money' may cause an uncontrolled rise of prices, which is inflation. Under other conditions 'created money' may be used for reconstruction purposes without fear of inflation. What are these conditions?

For the sake of clearness we shall begin with certain elementary concepts, the nature and functions of money.

What is money from the point of view of an individual holder? A rupee is legal tender, that is to say, it may be tendered legally in discharge of debts. Both the rupee note and the silver rupee are unlimited legal tender, or they may be used in payment of debts to an unlimited extent. The material of which the monetary unit is composed is a matter of complete indifference. The intrinsic value of the paper rupee is *nil*. Take away the paper note's power of commanding goods and services in exchange for itself, and it becomes totally worthless—it will have less value than blank paper which can be used for writing purposes. The intrinsic value of a silver rupee is a few annas; its exchange value is not determined by its intrinsic value. Our rupee is *fiat* money; in other words, it possesses exchange value because of Government command. All money may be paper money. Paper money performs all the functions of money; it is as good money as silver or gold. It is even better money, for it is less expensive and more convenient to carry.

Money is a medium of exchange. When the prices of all goods and services are expressed in terms of the rupee, we can compare the price of one good or service with that of another. Money is the common denominator of all values. Money is a store of value. I may not spend all that I earn. When savings are hoarded in the form of money, they represent stored up purchasing power. Finally, purchasing power is borrowed and lent in the form of money.

So far we were concerned with the functions of money from the point of view of the individual. But money also performs a function of the highest social importance when it gets into circulation—it puts industry into motion.

Suppose there is fertile land which would yield abundant crops of wheat, if only water could be provided for irrigation. A well has to be sunk. All the requisite materials for the construction of the well are available in the country—labour, bricks and cement, and timber. We have cattle for drawing water out of the well. But if there is no money, no well would be sunk. Suppose, the land belongs to an impecunious peasant. It will remain undeveloped.

Suppose, land has to be reclaimed from forest or swamps. If any machinery is needed for the purpose, we may use our sterling balances. Money is wanted to pay the wages of labour and for the services of other factors of production. The State, suppose, creates the money. Land would become available for cultivation.

Given imported machinery, do we want foreign

capital for the construction of canals? No. The Government may create the money required in excess of the proceeds of loans and taxes.

There is no peculiar virtue in putting industry into motion with gold and silver. The old idea was that a country with a gold standard must embody that standard in coins of the same metal. If paper money was used, it simply represented gold in the reserves. The rule rigorously enforced was that a paper circulation should fluctuate as a gold circulation would fluctuate.

In such a system to create additional wealth exports must exceed imports so that gold flows into the country. If imports exceed exports, gold would leave the country, there would be a contraction of gold and credit circulation based on gold, prices would fall and business enterprise would be discouraged. If, on the other hand, exports exceeded imports gold and credit circulation would expand, prices would rise and business activity would be stimulated. The ebb and flow of business was thus determined by the net exports or imports of gold and silver.

Recent monetary experience has shown that the monetary standard can be completely divorced from the currency. A country may be on the gold standard without using any gold for currency purposes. Further, a planned economy is an independent economy. No fundamental equilibrium exists between a planned economy and the economies of other countries. A country with a planned economy has dealings with the outside world, but it maintains its own price and income levels. In order to be able to plan, a country must

first break away from the world economy. Having done so, industry may be set in motion by paper money which does not represent a fixed amount of gold or international purchasing power, but has a purely internal value.

Assume that when rupees are paid to those who clear the jungle or help in sinking wells, or constructing canals, additional supplies of goods are created in the same instant of time. Will prices rise? How can they? The increase in the supply of goods keeps pace with the increase in the supply of money. As purchasing power increases, there are also more goods to buy. There can be no 'inflation'.

A mere increase in the means of payment does not lead to a rise of prices. Prices rise when demand for goods increases more rapidly than the supply. There was inflation during the war in the sense that Government expenditure diverted more and more resources to war-employments. Shortage for civilian consumption was caused by the shrinkage of normal imports on the one hand, and increased demand for all kinds of goods and services for waging war on the other. There was a considerable increase in production—but for purposes of destruction. At any time a country's resources in men and material are more or less fixed. If more and more of these resources are employed for producing guns, there would be less and less resources available for producing butter.

Even in such a case the rise of prices may be kept under control by rationing. Whatever butter is available may be rationed among the consumers at

a fixed price. The shortage may be equally shared by all. There was no such rise of prices in Britain and the United States during the war as we experienced, thanks to their systems of rationing and price-control.

When there is a shortage of any commodity, in the absence of rationing and price-control, price must rise to equate supply and demand. It is immaterial how a commodity becomes more scarce. Take a necessary for existence like wheat. Shortage may be due to famine. It may be caused by heavy exports. There may be a reduction in the supply available for civilian consumption because Government is accumulating stocks for the Army. That Government pays for its purchases is not of much consequence. If it simply commandeered stocks of wheat, the shortage would be just the same, and the rise of price equally inevitable. Government expenditure increases the purchasing power of certain classes of the population. But it does not increase the demand for necessities. The heaviest taxation of the rich during a war would not bring down the prices of necessities which had become scarce on account of the war demand.

There was 'inflation' during the war because of (a) reckless diversion of resources to war-employments, and (b) ineffective price-control and rationing.

We are concerned with peace-time reconstruction. If goods could be created as rapidly as the additional purchasing power, there would be no rise of prices.

But there is always a time-interval between

the creation of purchasing power and the increase in the supply of goods and services. Wages are paid daily or weekly while goods will be produced six months, a year or even several years later. Production and consumption during this interval must be so controlled that prices do not rise.

The rise of prices can be prevented by controlled distribution of commodities at fixed prices. The wants of an overwhelming majority of our population are limited. The masses want food, cheap clothing and a few other necessities. It should not be difficult to rapidly increase their supply, and in the meantime rationing would ensure equitable distribution.

We may now consider two actual examples of the use of 'created money' for economic reconstruction.

In the year 1932 the value of gold and foreign assets held by the Reichsbank of Germany and other German banks was 887 million, RM, which figure sank to 66 million RM in 1936. In 1937 the amount rose to 71 million RM (a little over £3½ million) and it was maintained at that level till 1940. During the same period (1932-1940) the gold reserves of the United States rose from 4,000 million dollars to 21,995 million dollars.

During the reconstruction period (1933-38) Germany had a negligible amount of gold. The role of gold in German recovery was of no importance.

The gold reserves of U. S. S. R. rose from 147 million gold dollars (1·50463g. fine) in 1929 to 439 million gold dollars in 1934, and thereafter fell to

225 million gold dollars in 1936. Between 1928 and 1936 the currency circulation (notes and coins) increased 5 times in Russia. It is probable that the note circulation increased more rapidly after 1936, but statistics of gold reserves and currency circulation are not available for later years.

Planning industrialised Russia, but, as in Germany, the role of gold in Russia planning was of no importance. The Russian Plans were largely financed with paper money created by the State. This paper money was inconvertible. The charter of the State Bank requires a 25 per cent. firm cover for the currency circulation, but in 1932 the State Bank ceased to pay heed to this requirement. Even without any gold cover, Soviet currency, it was claimed by Stalin, was the most stable currency in the world. It was backed by goods and the capital enterprises of the country. But the Soviet rouble could not be converted by selling Russian railways, docks, power stations and armament works to foreign powers. Soviet money was 'created money,' or money created by the authority of the State.

Stalin was proud of the Soviet rouble.

In emphasizing the stability of Soviet currency he is reported to have once 'profoundly' observed (as Hubbard puts it) : " Is it not a fact that with this currency we built Magnitostroi, Dnieprostoi, the Stalingrad and Kharkov tractor works, the Gorki and Moscow automobile works, hundreds of thousands of collective farms and thousands of State farms ? " ¹

¹ *Soviet Labour and Industry* by L. E. Hubbard, 1942, p. 244.

How did the paper rouble build the capital enterprises of Russia? Labour and raw materials were there. 'Created money' set the productive forces of the country in motion. Under the old system Russia could not have been rapidly industrialised without a stream of gold flowing into the country from abroad in the shape of loans and payment for surplus exports. This gold would have been piled up in the vaults of the State Bank, and paper money issued against it. The difference between the old and the new system is that Russian paper money is now backed by public confidence and the authority of the State; the piling up of gold in reserves has been dispensed with.

That created money achieved its object in Russia is unquestionable. It is like a drowning man pulling himself ashore by seizing his own hair—a miracle which, so far, has not happened. Russian industrialisation is a miracle that has happened.

The same miracle, in a more refined form, was repeated in Germany.

During the planning period Russia was no workers' paradise. Probably the standard of living of the average industrial worker in Russia was not much higher than that of an average industrial worker in Bombay. Sir Walter Citrine has estimated that the purchasing power of the British worker was approximately four times greater in 1937 than that of the average Russian worker.

The explanation is to be sought in the choice between guns and butter. Stalin chose guns, and the average Soviet citizen had perforce less butter.

Planning in Russia deliberately neglected 'light' as compared with 'heavy' industry. In all branches of textile industry, the manufacture of boots and shoes, furniture and other articles of daily use in the household, the achievements fell far short of the First-Five-Year Plan. For example, it was planned to increase the production of cotton goods, which are the chief articles of clothing in Russia, from 2,742 million metres before 1926 to 4,700 million metres, or by 70 per cent. Production increased in the first year of the Plan, then it declined. In 1932 it increased again, but the quality deteriorated. According to Professor Leontief, the population of Russia in regard to clothing was worse off than before the last World War. "This is explained by the fact that this industry was neglected for the sake of 'heavy' industry : besides, there was a lack of raw material, which they did not wish to import from abroad, since imports were restricted to material required for industrialisation."²

The scarcity of articles of food was felt throughout the First Five-Year Plan period. As compared with 'heavy' industry 'light' industry and industries producing articles of food had been set easier tasks in the Plan, and yet less success was attained in their case.

The Birmingham Bureau of Research on Russian economic conditions thus sums up its conclusions :

"The available statistics show that during the years of the First and Second Five-Year Plans

² *Weltwirtschaftliches Archiv*, Kiel, May, 1934, p. 526.

significant progress in capital construction was made and that the reproductive capacity of industry was greatly increased.' Expansion and restoration was particularly remarkable in the case of electrical industry, machine building and metal industry, heavy and light metallurgy, and chemical industries. It was considerably less in the case of light industry, and of cotton textiles, linen, silk and wool in particular."³

It should not be forgotten that by 1936 a money economy had been fully re-established in Russia. The card system was abolished, payments in kind were eliminated, and two or three sets of prices, which had existed before, disappeared as the monetary system developed. Under such conditions scarcity of consumers' goods must raise their prices.

It is now clear to every one that Russia, professedly a peace-loving nation, was all the time feverishly preparing for war to regain lost territory, like any other Imperialist Power. No modern war can be successfully waged without a highly developed industrial system, and for the sake of rapid industrialisation the Soviet regime imposed heavy sacrifices on the Russian people.

Our case is different from that of Russia in certain respects, and similar in other respects. Like Russia we start, not with 'full employment' but with large unemployed or partially employed resources. Like Russia our country is rich enough

³ *Results of the Second Five-Year Plan and the Project of the Third Five-Year Plan*, issued by the Russian Department of the Birmingham University, July, 1939, see p. 2.

to have a 'closed' self-sufficient economy. But we have a denser population. This is an advantage in so far as it represents an enormous potential demand for the products of industry. Unlike Russia we have no foreign conquests to make, and have no desire to impress the world with our achievements. We may remain unaffected by megalomania in construction which, according to M. Molotov, became 'a positive obsession' with a number of Russian executives. "There are many instances of cases", said M. Molotov in his Report on the Third Five-Year Plan, "where we embarked upon the construction of gigantic projects, sank a lot of money into those schemes, but their completion dragged out interminably."⁴ While paying more attention to heavy industry we need not neglect light industry. Even when we are building up a powerful heavy industry, adequate quantities of food and clothing may be provided. No one need die of starvation because of planning. It is not the rural masses but the middle classes living in towns who would be called upon to make the heaviest sacrifices.

In Germany economic reconstruction was carried through with bank credit. Wholesale prices rose from 70·3 in 1932 to 77·7 in 1939 (1929=100); during the same period, wholesale prices rose from 68·0 to 80·9 in the United States, and from 74·9 to 90·0 in the United Kingdom.⁵ Created money of an enormous amount was used to create employment and to finance rearmament, but during the

⁴ *Ibid.*, p. 7.

⁵ See *Statistical Year Book of the League of Nations*, 1940-41, Table 100

period of reconstruction not the slightest trace of 'inflation' was perceptible.

Why was there no inflation in Germany? The answer is that a planned economy had been set up, in which all aspects of economic life and activity, including investment, were rigidly controlled by Government. Scarce goods and services were rationed at fixed prices. The free play of supply and demand in value determination had ended. The rules of the *laissez faire* game do not apply to a planned economy, which is a different game altogether. Talk of inflation is pointless under planning, assuming that economic controls are working smoothly. Can a car run away with you if it is properly under control? But it will, if you are drunk or begin to drowse at the wheel.

In discussing the effects of an increase in the supply of money on prices economists distinguish two stages, a stage in which there are idle resources which may be drawn into employment, and the second stage of 'full employment'. Suppose Government requires the services of several hundred thousand tailors to make military uniforms. When the war broke out, there was actually unemployment among tailors, and many tailors were not fully occupied. Government did not require several hundred thousand tailors all at once; the increase in demand was gradual. Gradually unemployed and partially employed tailors were drawn into service. They would be willing to work for the existing rates of wages. But when all available tailors were employed and more were required, Government had to offer higher wages to withdraw

them from other employments. This is the stage of 'full employment' in which increased supplies of goods and services under free competition would only be obtained by raising costs. Economic controls are needed for this stage. Price control and rationing will limit the rise in costs and effect the diversion of supplies from the private to the public sector of national economy. This is not a theory but actual experience.

We may finally explain how 'created money' raises income. In the preceding chapter the reader was introduced to two terms made familiar to students of economics by the late Lord Keynes, 'the propensity to consume' and 'the propensity to save.' We have seen that when a rupee is invested in capital goods' industries and the propensity to consume is $1/2$, the producers will spend $1/2$ rupee and save $1/2$ rupee. As this process is continuous, the income of the community will ultimately increase by 2 rupees. Two, in this case, is technically called the *Multiplier*. If the fraction saved is $1/10$, the *Multiplier* is 10, or total national income would increase tenfold.

PRINCIPLE OF ACCELERATION

In recent monetary theory the *Principle of Acceleration* plays a role equal in importance to that of the *Multiplier*. What is acceleration?

In a motor car there is an obtruding piece of metal which, when pressed down with the foot, accelerates the car. The car was running at a speed of, let us say, 25 miles per hour. The speed is in-

creased to 30 miles per hour.

Now consider investment with the object of increasing national income. As national income increases, consumption must increase, which will lead to an increase in investment in capital goods' industries to meet the increased demand for consumers' goods. Given a fixed demand, we require a given number of machines to make boots and shoes or bicycles. As the demand increases, investment in machines to make boots and shoes or bicycles must increase at a certain rate—investment is accelerated.

We can now present a synthesis of the *Multiplier* and the *Acceleration Principle* in tabular form to show how national income will rise under given assumptions. We assume that the State makes continuous investments in capital goods 'industries' at regular intervals. The State creates money for the purpose, in addition to what it has obtained through taxation and internal borrowing. We may call these investments 'current governmental expenditure'. The propensity to consume is $1/2$. As consumption increases, there will be an increase in private investment in industry. Both consumption and investment are under control, for the experiment is taking place in a planned economy. We assume that current private investment is equal to increase in consumption between two successive periods. The proportion of investment to increase in consumption may be called the *Relation*.

The development of national income as a result of a Rising Level of Governmental Expenditure when the Marginal Propensity to consume

equals one-half and the Relation equals Unity :

(Unit=1 Rupee)

Period	Current governmental expenditure	Current consumption induced by previous expenditure	Current private investment proportional to time increase in consumption	Total National Income
1	1'00	0'00	0'00	1 00
2	1'11	·50	50	2'11
3	1'24	1'055	·555	2'85
4	1'39	1'425	·37	3'185
5	1'56	1'5925	·1675	3'32
6	1'75	1'66	0675	3'4775
7	1'96	1'73875	·07875	3 7775
8	2'19	1'88875	·15	4'22875
9	2'44	2'114375	·225625	4 78
10	2'71	2 30	275625	5 375625
11	3'00	2 6878125	·2978125	5'985625

In the table given above our unit is one rupee. Current governmental expenditure rises from 1'00 to 3'00.

Assuming that the marginal propensity to consume is $\frac{1}{2}$, current-consumption induced by previous expenditure will be $\frac{1}{2}$ of the total national income in the preceding period. We assume the relation of current private investment to increase in consumption between two periods to be unity. In the first period, current governmental expenditure is 1'00. As there is no previous expenditure, current consumption induced by previous expenditure is

0·00, current private investment is also 0·00, and total national income is 1·00.

In the next period current governmental expenditure is 1·11 ; the figure in the next column is ·50, half of the total national income in the first period ; current private investment is also ·50, and total national income =

$$1·11 + ·50 + ·50 = 2·11.$$

In the third period, current governmental expenditure is 1·24 ; current consumption is one-half of total income in the second period, $\frac{2·11}{2} = 1·055$. and current investment is the difference between current consumption in the third and the second periods, $1·055 - ·50 = ·555$. Total national income in the third period is now :

$$1·24 + 1·055 + ·555 = 2·85, \text{ and so on.}$$

The figures are of no importance, but they illustrate a principle which is important.

In our country there are millions of men who are unemployed or who are partially employed. There are vast resources in the form of land, water-power and mines and quarries, which are awaiting exploitation. Given a State which invests capital in setting men to work, national income must rise.

CHAPTER V

THE CABINET MISSION'S PROPOSALS AND THE BATTLE OF INTERPRETATIONS

We have now gained a fair idea of the economic structure required for planning. In this chapter we shall study the economic structure of free India as envisaged in the Cabinet Mission's proposals.

The publication of the Bombay Plan had inspired many of us with hope of better things to come. A Plan had been placed before the country which suggested practicable means of doubling the national income within a period of 15 years. A Department of Planning was organised at the Centre and it functioned for some time under the care of one of the joint-authors of the Bombay Plan, Sir Ardeshir Dalal. The Planning Department was a visible symbol of India's determination to introduce a planned economy. The Planning Department has disappeared and hopes of planning on an all-India basis are dead.

For economic planning the Centre must enjoy the widest powers of taxation, borrowing and economic control, as is apparent from the preceding two chapters. What is the nature of the Union Centre in the Cabinet Mission's proposals?

A planning Centre was demanded by the

Congress. In a letter dated 27th April, addressed to Maulana Abul-Kalam Azad and Mr. Jinnah, Lord Pethick Lawrence, Secretary of State for India, had indicated that the Union Government would have responsibility for three subjects only—Foreign Affairs, Defence and Communications. In his reply dated 28th April, Maulana Azad said that the Centre, in addition to the three subjects mentioned, should deal with 'currency, customs, tariffs, and such other subjects as may be found on closer scrutiny to be intimately allied to them'. Planning was specifically mentioned in the Congress letter to Lord Pethick Lawrence dated May 9, 1946. The letter emphasized 'the necessity of having a strong and organic Federal Union.' It stated that currency and customs 'must in any event' be included in the Union subjects, as well as certain other subjects intimately allied to them. "One other subject is an essential and inevitable Union subject, and that is Planning." "Planning", Maulana Azad added, "can only be done effectively at the Centre, though the Provinces or the Units will give effect to it in their respective areas.'

In the 'points' suggested on behalf of the Congress as a basis for agreement on May 12, 1946, 'currency, customs and planning' were included in the list of Central subjects.

Four days later, a summary of the Cabinet Mission's proposals was broadcast by the All-India Radio, and next morning, their Plan for India appeared in the press. It left many of us gasping. The basis on which negotiations were carried on between the Congress High Command and the

Cabinet Mission became known more fully only when the correspondence between the two was published (May 19), but the Cabinet Mission's statement of May 16 mentioned a scheme, put forward by the Congress, under which the Provinces were to have full autonomy subject only to a minimum of Central subjects, 'such as Foreign Affairs, Defence and Communications' (para 12). It was provided in the Congress scheme that if the Provinces wished to take part in economic and administrative planning on a large scale, they 'could cede to the Centre optional subjects' in addition to the three compulsory subjects.

At some stage in the negotiations, after May 12, planning became an 'optional' subject. That reminds one of the optional subject or subjects taken by students sitting for University examinations. Certain Provinces might take planning as an optional subject at the Centre, and others refuse to take it. "Such a scheme", observe the Cabinet Mission, "would, in our view, present considerable constitutional disadvantages and anomalies". It is extremely doubtful if even on economic grounds planning as an optional Central subject is worth serious consideration. Planning must be compulsory, or there is no planning.

Quite naturally, planning has vanished from the Centre. The basic recommendations of the Cabinet Mission are given below. The reader may once more study them with care so as to be able to take a share in the battle of interpretations.

"(1) There should be a Union of India embracing both British India and the States, which

should deal with the following subjects : Foreign Affairs, Defence and Communications ; and should have the powers necessary to raise the finances required for the above subjects.

“(2) The Union should have an Executive and a Legislature constituted from British Indian and States' representatives. Any question raising a major communal issue in the Legislature should require for its decision a majority of the representatives present and voting of the two major communities as well as a majority of all the members present and voting.

“(3) All subjects other than the Union subjects and all residuary powers should vest in the Provinces.

“(4) The States will retain all subjects and powers other than those ceded to the Union.

“(5) Provinces should be free to form groups with executives and legislatures and each group could determine the Provincial subjects to be taken in common.

“(6) The constitutions of the Union and of the groups should contain a provision whereby any province could, by a majority vote of its Legislative Assembly, call for a consideration of the terms of the constitution after an initial period of 10 years and at 10 yearly intervals thereafter.”

From the point of view of Central planning two things are of the utmost importance, the list of Central subjects, and the grouping of the Provinces. We shall begin with Mahatma Gandhi's interpretation of the Cabinet Mission's proposals.

Mahatma Gandhi took a leading share in the political negotiations for a settlement, and he acted as advisor to at least two of the three parties which were negotiating,—the Cabinet Mission and the Congress.

Addressing his prayer meeting at Delhi on May 17, Mahatma Gandhi said :

"Thus the Mission had suggested for the Centre certain subjects. It was open to the Assembly, the majority vote of Muslims and non-Muslims, separately, to add to them or even reduce them Similarly about grouping. The Provinces were free to reject the very idea of grouping." "Subject to the above interpretation, which he held was right", Mahatma Gandhi added, "he would tell them the Mission had brought forth something of which they have every reason to be proud."

Assuming that the responsibility of the Centre is limited to Foreign Affairs, Defence and Communications, the Mission have brought forth something which has effectively split economic India into two or more parts, and ended economic planning on all-India basis. But that does not worry Mahatma Gandhi. He is an advocate of decentralisation, not centralisation of political and economic power. Charkha economics can function with any kind of Centre, even without a Centre. In Mahatma Gandhi's scheme, as we have seen, each village would be an independent republic, ready to defend its independence, non-violently, against the whole world.

Mahatma Gandhi admits the possibility of

adding to the Central list, but only by a majority vote of Muslims and non-Muslims separately. If the Muslims do not agree, the Centre will have responsibility for the three subjects only.

Addressing his prayer meeting at Delhi on May 18, Mahatma Gandhi said :

"It was his hope and prayer, in which he invited the audience to join him, that the announcement of the Cabinet Mission would be fully honoured in letter and in spirit." He added that he would not purchase even Swaraj at the cost of truth.

MAULANA AZAD'S INTERPRETATION

Maulana Azad's valedictory speech at Bombay on July 16, as Congress President, contained the following reference to the Union Centre :

"For some time now the Congress had been convinced that a completely unitary form of Central Government was as unsuited to India as it was impracticable. The Congress also felt convinced that a division of India, as demanded by the Muslim League, would prove disastrous to the country. The Congress had, therefore, decided to pursue a middle course. That is the reason the Congress recommended federal form of Centre with maximum autonomy to the federating units, including residuary powers. This helps to keep India undivided, at the same time ensuring utmost autonomy to the units to develop themselves individually and freely to the maximum extent.

"We placed this proposal before the Cabinet

Mission which accepted this proposal in principle and produced a scheme with a United Centre with limited powers, such as controlling defence, foreign affairs and communications, and finance to the extent needed to maintain the stability of the Union Centre. The Constituent Assembly could now find ways and means of strengthening the Union Centre by conceding to the Centre sufficient powers to levy enough finances to support itself and maintain an efficient defence force to protect the country from external aggression and internal turmoil."

We learn that the Congress became convinced of the unsuitability and impracticability of 'a completely unitary form of Central Government'; that the Congress decided to pursue a 'middle course'; that the Congress recommended to the Cabinet Mission the federal form of Centre 'with maximum autonomy to the federating units, including residuary powers.' Residuary powers of the Units are all powers not expressly conferred on the Centre. Then Maulana Azad mentions the three Central subjects and 'finance to the extent needed to maintain the stability of the Union Centre.'

There is one difference between Mahatma Gandhi's interpretation of Cabinet Mission's proposals and that given by Maulana Azad. The latter believes that the Union Centre can be 'strengthened' on the ground that it must have adequate finances for the efficient discharge of its duties. *Mahatma Gandhi has said nothing about the desirability or otherwise of strengthening the*

Union Centre on one pretext or another.

The Union Centre must have power to levy contributions to meet its expenditure. On the ground of finance it cannot claim to direct, for example, the currency and credit policy of the Units. The control of currency and credit is centralised for reasons other than revenue. The revenue derived by the Centre from currency and credit is inconsiderable and incidental.

As we have already seen, trade control is intimately connected with exchange control. No Unit, knowing anything about it, would permit the Centre to meddle with its tariff policy or quantitative control of foreign trade. Currency, credit and customs cannot be brought within the purview of the Centre for financial reasons. These subjects, vital for planning, are not Central subjects.

PANDIT NEHRU'S INTERPRETATION

The most remarkable interpretation of the Cabinet Mission's proposals was that given by Pandit Jawahar Lal Nehru, shortly after his election as Congress President, in his press conference at Bombay on July 10.

Pandit Nehru's conception of the Union Centre is that of a strong Central Government of the unitary type. The units may enjoy certain powers in their own sphere, but the economic policy of the country will be shaped by the Union Centre. The key industries, directly or indirectly connected with Defence, will be controlled by the Union Centre. Exports and imports will be re-

gulated by means of the tariff and other methods and devices. The Union Centre will raise loans abroad. It will issue currency for the whole of India and control credit conditions throughout the country. "It must also control currency and credit," Pt. Nehru said. "Who is going to do it if not the Centre? You cannot allow each Unit or Province to carry on a separate type of credit and foreign policy". It is not possible for each Province to have independent tariff, currency and credit policies, but grouped Provinces may. That would lead to an economic partition of India, which is not desirable, but is conceivable. 'Foreign policy' in all cases must be the concern of the Central Government.

The Union Centre, according to Pandit Nehru, must be able to meet its expenditure by taxation. "If any one suggests that some kind of contributions or doles are going to be given by the Provinces or States, it is bunkum." He has not given us a list of Central taxes. Customs duties belong to the Centre. "In fact tariff is connected with foreign trade. It may be income-tax or may be another. I do not know what else."

The Constituent Assembly will deal with the question. If Provincial contributions or doles are ruled out, then there will be very little change in the existing Central sources of revenue. The main sources of Central income will be Customs, Income-Tax, possibly some excise duties and Government's share in railway profits. *If there* is to be no reduction in the powers and functions of the Centre, its financial resources cannot be

allowed to contract. As the Centre grows more powerful, its financial resources must also grow.

At a time when constitution-making is in progress, it may be desirable to draw attention to the change in the views of economists regarding taxation. The orthodox view of taxation is purely fiscal, that is to say, raising revenues to meet public expenditure. The national goose has to be plucked; well, then, pluck it but with as little squealing as possible. The modern view is different. Taxation may now have socio-political objects. It may be used to make the distribution of wealth less unequal. The State may deliberately impose heavy taxation on the rich, on unearned income, in order to provide benefits for the poor. Income from interest and dividends, or house property which brings rent, is 'unearned.' Wages and salaries are 'earned income.' The distinction between unearned and earned income is now made in our Income-tax. Death duties may come. Revenues thus raised by taxing the richer sections of the community may be used for 'social security' purposes. Social security has a variety of forms: old-age pensions, unemployment insurance, health insurance and medical benefits and, for women, maternity and various other benefits, and reliefs.

Socio-political objects of taxation were recognized by Sir Archibald Rowlands when, in the course of his last budget speech, he said that fiscal policy 'must subserve the ends of national policy.' Its purpose is not merely to raise a given revenue 'but to raise it in such a way as to attain the maximum social and economic advantage,' while

distributing the burden as justly and fairly as possible between the various classes of tax-payers.

The budget may be used as an instrument of expansionist policy.

It was used for this purpose in the nineteen thirties in several countries, as we already know.

Here then is one conception of the Union Centre—a Centre armed with powers to regulate economic conditions throughout the country, not only by means of its tariff, currency and credit policies but by a judicious use of its power of taxation and borrowing. It is a conception of a strong and virile Centre. It is an essentially modern conception of the powers and functions of the Central Government. Such is Pandit Nehru's Union Centre. No other Union Centre is worth looking at for a moment, particularly if planning on an all-India basis is contemplated. I am in complete agreement with Pandit Nehru so far as that is concerned. Economic organisation has changed profoundly during the past 30 or 40 years, making an end of *laissez faire* and free competition. The place vacated by *laissez faire* must be taken by the State — not by a pale and anæmic Centre relying on doles or contributions for carrying out its manifold duties, but a Centre enjoying wide powers of taxation and borrowing, regulation and control.

We are here, however, not concerned with the desirability of establishing a strong government of the Unitary type at the Centre, but the interpretation of the Cabinet Mission's proposals. How would Pandit Nehru bring foreign trade, currency

and credit under Central control ?

At the same press conference he suggested an ingenious interpretation of Foreign Affairs. If that interpretation holds, a dead Centre may possibly be brought to life again.

"Similarly external affairs inevitably include foreign trade policy," said Pandit Nehru. In the same connection he said : "In fact tariff is connected with foreign trade policy." 'Foreign Affairs' may be interpreted as 'External Affairs.' Foreign trade is an external affair, in a sense. Therefore Customs may be included under 'Foreign Affairs.' And since tariff and Customs are the same thing, the Union Centre having responsibility for 'Foreign Affairs' must have the power to levy customs duties for the whole of India.

One might carry the argument a step further. Foreign trade is regulated not only by means of a tariff and quantitative controls (quotas, conventions, prohibition etc.), but by exchange control. In fact, permission to import goods under a tariff, or within a quota, may be easily rendered meaningless by lack of foreign exchange for the payment of the goods imported. For example, I may be willing to pay the import duty on American printing machines, but if I am unable to obtain the dollars required to pay the price of the machines, no import will take place. In the inter-war period exchange control, in several countries, proved a far more effective means of regulating foreign trade than quotas and tariffs.

This is not all. When foreign goods are kept out by exchange control, quotas and tariffs, home

producers tend to form trusts, cartels and syndicates and exploit the consumer by establishing a monopoly. The State must safeguard the interests of the consumer by controlling profits, production and prices.

What is our conclusion then? Foreign Affairs mean external affairs. External affairs include external trade. External trade includes all methods of trade restriction on the one hand and control of profits, production and prices on the other. External trade also includes exchange control, and exchange control includes currency and credit control. Thus the Union Centre having responsibility for Foreign Affairs must assume responsibility for directing and controlling the entire economic life of the country.

Economic life is a whole. We may start with Defence and show as easily that Defence includes not only industries directly connected with war but all production and trade. There is no aspect of life which is not affected by a modern war, or preparation to meet foreign aggression, which is Defence. Therefore, Defence includes the widest powers of economic control. Defence includes everything.

This is my interpretation of Defence and Foreign Affairs. Can the reader find fault with my logic? No. The logic is irresistible. But it is a species of quibbling which will deceive no one—it has not deceived Mr. Jinnah and the Muslim League.

Among the powers and functions assigned to the Centre in the recommendations of the Sapru

Committee we find mentioned, separately, Foreign Affairs, Defence, Relations with Indian States, Inter-Unit Communication, Commerce, Customs and Currency. The Sapru Committee did not include Commerce, Customs and Currency under Foreign Affairs. Nor did Sir Reginald Coupland. Nor would any one else.

It is not a question of 'interpretation.' It is a question of commonsense.

There is no doubt that the attempt by Pandit Nehru to re-establish a strong government of the unitary type at the Centre by his Pickwickian interpretation of the Cabinet Mission's proposals influenced the decision of the Muslim League to reject both the long-term and short-term constitutional proposals. On August 10 the Congress announced, or reaffirmed, its acceptance of the Cabinet Mission's scheme 'in its entirety.' But the battle of interpretations has not ended. It will be carried into the Constituent Assembly. The Congress resolution of August 10 does not say that the Congress accepts the allocation of the subjects by the Cabinet Mission between the Centre and the Provinces. Pandit Nehru has not withdrawn his untenable interpretation of 'Foreign Affairs.'

In the Congress Resolution of August 10, there is possibly an admission that something has been settled — that the Constituent Assembly is, perhaps, not a sovereign body like the one in France which cut off the head of the king who called it. But beyond that nothing is settled, and in regard to grouping, particularly, the Congress

adheres to its original interpretation.

GROUPING

While, as we have seen, there is a difference in regard to the interpretation of the Central list of subjects between Mahatma Gandhi and Pandit Nehru —Mahatma Gandhi counting three subjects as three, and Pandit Nehru as six or more, their interpretation of the Cabinet Mission's proposals in regard to grouping is the same. Mahatma Gandhi has said that the Provinces are free to reject the very idea of grouping. Pandit Nehru thus referred to grouping in his press conference at Bombay on July 10.

"The big probability is, from any approach to the question, there will be no grouping. Obviously, sections will decide against grouping. Speaking in betting language there was four to one chance of the North-West Frontier Province deciding against grouping. Then group 'B' collapses. It is highly likely that Assam will decide against grouping with Bengal, although I would not like to say what the initial decision may be since it is evenly balanced. But I can say with every assurance and conviction that there is going to be finally no grouping there, because Assam will not tolerate it under any circumstances whatever. Thus, you see, this grouping business approached from any point of view does not get on at all."

This is a remarkable instance of thinking aloud wishfully in a press conference by no less a person than the President of the biggest political organisa-

tion of the country.

Speaking in betting language, like Pandit Nehru, I would say that there was four to one chance of the North-West Frontier Province deciding in favour of grouping. I am willing to stake a reasonable amount on this chance. Will Pandit Nehru take on the bet? The Frontier Province cannot sign its own economic death-warrant by joining no group. It cannot stand alone. It must join either group B or group A. The idea of the Frontier being linked with Group A is fantastic. If it elected to do so, I should lose my bet and a few rupees, but the Frontier Province would suffer a loss of trade and a contraction of income which might run into crores of rupees. It is not likely to make such a mistake.

Some time ago the Frontier Gandhi made a tour of his Province and declared that the general feeling in the Province was in favour of linking up with Group A, or the Congress. But as will appear from what he subsequently wrote in the *Pakhtoon*, the official organ of the Red Shirts, the economic aspect of the question is receiving his attention :

"I have got no objection to be in one group with the Punjab, Sind and Baluchistan, but I must say this—that before such partnership, all of us should sit like brothers and satisfy each other by removing certain doubts and assure one another that such grouping is in the interest of each province.

"Some people give it a religious colour, but that is not correct. What has religion got to do with it? This is an economic problem, a question of

pure profit and loss. Nothing can be done by force; even a father cannot compel his son these days.

"Apart from this, there is a second important question that requires attention—that of joining the Hindus. When we are surrounded on all sides by the Punjab, Sind and Baluchistan, how can it be possible that we should ignore one of our neighbours and over and above that neighbour's head join others. If we can ever form a group it can only be with the Punjab, Sind and Baluchistan, and not with other provinces, as all Hindu majority provinces are hundreds of miles away from us."†

Khan Abdul Ghaffar Khan's statement is clear and definite, and the weight that his opinion carries in his Province is enormous. Still I am not relying for winning my bet on this statement. The Frontier Gandhi may be persuaded to think otherwise by Mahatma Gandhi. I base my judgment on my own interpretation of the Cabinet Mission's scheme.

The scheme must be accepted or rejected as a whole. In the scheme the allocation of subjects between the Centre and the Provinces has been integrated with grouping. Central responsibility has been limited to three subjects, (Foreign Affairs, Defence and Communications); all other subjects are transferred subjects. Now it is not possible for each Province to have its own independent currency and credit policy, and its own independent tariff and trade policy. Provinces must

† See the "C & M. Gazette" of Lahore, dated July 30, 1946, p. 12.

therefore form groups, and the most reasonable grouping, from the economic point of view, is that suggested in the Cabinet Mission's scheme. It creates economic regions, and makes regional planning possible.' With responsibility for its three subjects only, the Centre cannot plan. Enjoying all responsibility, except in regard to the three Central subjects, the grouped provinces can plan, within the limitations of their resources.

Regional development is contemplated in the Regional Scheme of Sir Reginald Coupland, but he included Currency and Customs in the Central list of subjects, transferring Communications to the Units. Planning is far more comprehensive than regional development. Any region may be developed under Central control of currency, credit and foreign trade, but no region can set up an independent planned economy under this condition. Sir Reginald Coupland was not concerned with planning, whether Central or regional.

Similarly the Sapru Committee ignored planning completely—in fact the political structure recommended by it made planning impossible. The Provinces were to be autonomous, except in regard to the Central subjects, which included Communications, Currency and Customs. The Centre of the Sapru Committee could not plan because autonomy had been conferred on the Provinces, and the Provinces could not plan because they had no control over currency, credit and foreign trade.

It should be clearly understood that under a Planning Centre the Units enjoy no autonomy whatsoever. They must carry out the policy of

the Centre in all matters affecting the Plan.

The point is exceedingly simple. Agriculture was made a transferred subject when Provincial Autonomy was introduced in the constitution of 1919. Enjoying complete autonomy in this respect, each Province was free to pursue its own independent food policy, regardless of the interests of the country as a whole. It may be remembered that the Punjab opposed rationing to the last. Any autonomous Province might refuse to deliver up stocks of food, which it was holding in excess of its requirements, for relieving want in deficit areas. It may seek to make a profit in selling its surplus. That is not how famine can be fought. India owes a deep debt of gratitude to Lord Wavell for devising and enforcing an all-India food policy, which has saved millions of lives. Provincial autonomy, so far as Agriculture is concerned, had to be sacrificed. In a famine you cannot have the Centre pulling in one direction, and the Provinces in another. They must work together under one direction, and that direction must be Central direction.

The situation is the same when conditions of permanent famine prevail in the country and it is decided to increase food-supply according to plan. Planning and Provincial Autonomy do not go together.

Under planning the whole people march forward like a disciplined Army. The Army has a General Staff ; a planned economy has its Planning Commission. What can an Army achieve if its generals, disregarding orders, advance or retreat

in a campaign according to their own judgment? In fighting, sometimes, it may be necessary to sacrifice a whole Division in order to save more Divisions. The Division selected for annihilation must allow itself to be annihilated—under orders. In planning to fight famine, people living in surplus areas must tighten their belts, when ordered to do so, for the good of the country as a whole. Planning is concerned with the development of a whole country, or a whole region. The Units can enjoy only such power as the Planning authority concedes to them. Central planning on any other basis is impossible.

It should be clear to the reader that if the Centre is to plan, Planning as such must be included in the list of Central subjects. Central responsibility for currency, credit, and customs, by itself, means nothing, for if Provincial autonomy goes with it, the Centre, notwithstanding this responsibility, cannot plan.

When I protested in the columns of the *Tribune* against Pandit Nehru's interpretation of Foreign Affairs as including foreign trade, my attention was drawn by a highly educated correspondent, in a private letter, to the dictionary meaning of 'foreign affairs'. I have looked up both words in the Concise Oxford Dictionary. The meanings of 'foreign' include 'outside the country, not in one's own land'; the meanings of 'affair' include 'business, matter'. One is forced to admit that when imports come into a country from outside the country, they are a foreign affair, or business, or matter. Foreign trade might thus

be included under Foreign Affairs. Let us do so. Since trade control and exchange control must be integrated in the same hands in a planned economy, Pandit Nehru, when he assumes charge of Foreign Affairs in free India, would also take charge of Foreign Trade and Currency. But, as we have seen, the regulation of foreign trade is intimately connected with the regulation of the whole internal economy, including production, prices, wages, profits, investment, communications and even industries for defence. Pandit Nehru, then, as our Foreign Minister, must take complete charge of the Centre !

But he would not be able to plan even then. He would have to provide an interpretation of Foreign Affairs which includes planning, or the widest powers of economic control over the Units. This is impossible. The Congress recommended the grant of the 'fullest autonomy' to the Units. Foreign Affairs may be so interpreted as to include all subjects, but 'fullest autonomy' cannot be interpreted to mean 'no autonomy' or 'complete subordination to the Centre'. Not trusting my knowledge of English I have looked up the word 'autonomy' (which occurs twice in the passage quoted on p. 117 from Maulana Azad's valedictory speech in Bombay) in the dictionary. The meanings include 'a self-governing community'. 'Fullest autonomy' for the Provinces therefore means Provinces enjoying the right of self-government in the fullest sense. How can the Centre plan with such units ?

The full significance of grouping in the

Cabinet Mission's scheme cannot be understood without a proper comprehension of currency, credit and trade policies.

DEVALUATION

The recommendations of the Sub-Committee of the National Planning Committee concerned with trade and tariff policy were published early in August of the current year (1946). The Sub-Committee was of the opinion that 'some degree of devaluation of the rupee would be necessary in order to put the Indian economy on a reasonable, competitive basis as compared with the economies of other countries.' Devaluation and external and internal purchasing power of money are technical subjects, but we must know what they mean to be able to take an intelligent share in the discussion of grouping. The matter is not settled by saying, as Mahatma Gandhi has said, that the Provinces are free to reject the very idea of grouping, or by offering betting odds, as Pandit Nehru has done, on the chance of a certain Province rejecting the proposed grouping arrangement.

The recommendation of the Sub-Committee of the National Planning Committee mentioned above suggests that Group A Provinces may devalue the rupee. What is devaluation?

Suppose we buy a British fountain pen made in England. Its price in English money is £1. What is £1 equal to in rupees? That depends on the rate of exchange between our money and English money.

The rate of exchange was fixed in 1927 at 18*d.* Both India and England were then on the gold standard, which means that internal currency in both countries was convertible into gold for foreign payments at fixed rates.

A gold pound contains 113 grains of fine gold. Since the pound is equal to 240*d.*, 18*d.* is equal to 8·475 grains of fine gold. Thus in 1927 the rupee was made equal to 8·475 grains of fine gold.

When both countries left the gold standard, the sterling and the rupee depreciated. At present the gold value of the rupee is a little over 4 grains of fine gold.

When a law is passed fixing the gold value of the rupee at a figure lower than 8·475 grains of fine gold, the rupee would be said to have been devalued.

Since Currency is a transferred subject, there may be devaluation in Group A and no devaluation in Group B. If there is devaluation in both Groups, as is certain, the extent of devaluation may be different.

Suppose Group A stabilizes its exchange at 16*d.* and Group B at 18*d.* sterling. Then the price of a fountain pen worth £1 in England will be Rs. 15 in Group A and Rs. 13½ in Group B (ignoring export and import duties and the cost of transportation). The same will be true of all imports—they would be cheaper in Group B than in Group A, other things being equal.

Why should Group A want to make imported goods dearer? Group A may have manufacturing industries which would not develop at all, or not

so rapidly as may be desirable, without protection against foreign competition. Devaluation is one method of granting protection. A duty on imports is a second method. Rigidly fixing the quantity of certain classes of imports is a third method.

Different degrees of devaluation of the rupee alone can create different levels of prices in different Groups. The rate of exchange is a very important thing. Given a fixed rate of exchange and freedom to export and import goods, the prices of goods which enter into foreign trade will be determined by world causes. Bullocks are not exported and imported, and their prices are local. But if wheat is exported and imported, our price will fluctuate, or rise and fall, with the world price. If Group A and Group B are working with different rates of exchange, the price of wheat in the two Groups must be different.

These differences will tend to be removed if there is free exchange of goods between the Groups. For example, if fountain pens can be imported at Rs. 13½ in Group B, through its own port of Karachi, they may be sold at a profit in Group A where their price, at 16d. to the rupee, would be Rs. 15. But, by doing so, Group B would neutralize the support which the Governments of Group A intended to give to home industries. Therefore trade barriers would have to be erected between Groups A and B.

Different scales of import duties would lead to the erection of internal trade barriers as certainly as different rates of exchange.

If each Province and State of India were made

economically independent, internal trade would be at a stand-still and utter confusion would prevail. It is highly desirable to preserve the economic unity of India, but if the economic partition of India has been agreed to, the next best thing is to retain large regions in which trade may move with the utmost freedom. That is why the North-West Frontier Province must join Group B, and not Group A. Its natural place, determined by geography which no Congress resolution can alter, is in Group B, and not in Group A. There is good sense in Khan Abdul Ghaffar Khan's statement that the Frontier people cannot join Provinces which are hundreds of miles away from them.

BANKING AND CREDIT

India has joined the International Monetary Fund, and the Governor of the Reserve Bank of India, early in August, stated the conditions which we have to fulfil in order to implement the Bretton Woods' programme. Our monetary policy must be in harmony with the objects of the Fund.

But with currency and credit ceasing to be Central subjects, will India have one monetary policy and one Reserve Bank to enforce it?

We have seen above that Groups A and B may stabilise their foreign exchanges at different rates. It is the duty of the Central Bank to maintain the exchange value of the monetary unit. We shall see presently how that is done. Now a single Central Bank cannot be entrusted with the control

of currency and credit in two economically independent areas. It cannot maintain two exchange rates. Our Reserve Bank is in the melting pot. The economic partition of India involves the partition of the Reserve Bank as well. The Reserve Bank of Group A will maintain exchange, let us say, at 16*d.* sterling, and the Reserve Bank of Group B, at 18*d.* sterling.

The rate of foreign exchange is maintained by the Central Bank by the manipulation of the Bank Rate and other devices.

If exchange is falling, credit must be restricted. This is done by raising the Bank Rate. A rise in the Bank Rate is generally followed by a rise in the market rate. If it is not, the Central Bank begins its open market operations, which have been mentioned before. When the Central Bank sells securities, which any one may buy, it receives cheques in payment drawn on one or other of the member (Scheduled) banks. The sale of securities by the Central Bank thus reduces the cash reserves of the member banks and they are forced to raise the rates at which they lend money. Credit restriction is thus brought about. If the open-market operations fail to produce the desired effect, then the minimum reserve requirements may be raised. In India these requirements are 2% of time liabilities and 5% of demand liabilities which Scheduled Banks must maintain as a balance with the Reserve Bank free of interest. The Reserve Bank of India is not empowered to raise the reserve requirements, but this power is enjoyed by the Federal Reserve System of the United States, and

we may have to follow the American example. The Central Bank may also require banks to make the conditions for loans to stock exchange speculators stiffer. Less money would be advanced if a loan could not be granted exceeding 40% of the current value of stock exchange securities, than if the percentage were 60.

By employing such devices the Central Bank controls credit expansion and contraction and endeavours to maintain an equilibrium between the internal and the external value of the monetary unit. The rate of exchange expresses the external value of the currency, and the level of prices the internal purchasing power of money. When the two are not in equilibrium trouble arises. The Central Bank and its operations are of the greatest importance in determining the rhythm of economic life and activity.

Let us take an easy example. Suppose Group A is carrying out large-scale industrialisation with credit money. Prices and wages in Group A may begin to rise, or the internal value of money may begin to fall. The rate of exchange remaining unchanged, a disequilibrium will arise between the external and internal value of money. Imports will increase, exports will be discouraged, and the balance of payments with the outside world will turn against it. The loss of gold by the Central Bank may eventually lead to the suspension of the gold standard, and there may be a new devaluation of the monetary unit. But before that stage is reached, the Central Bank, by restricting credit, may be able to raise the internal value of money, and restore

equilibrium between the internal and external purchasing power of the monetary unit.

It will be seen that credit policy is intimately connected with the quantity of money in circulation, the supply of loanable capital, the demand for loans, employment, prices and wages. At present Central banking in India has not the same significance as in the United Kingdom or the United States; still it is as well to know how the mechanism of Central banking functions. For we possess this mechanism, and it is bound to grow and develop in the coming years.

Currency is not a Central subject. Is each Province to have its own independent Reserve Bank? Will it not be desirable to group the Provinces together for the purposes of credit control? If so, where is the sense in the North-West Frontier Province following the credit policy of the provinces which are hundreds of miles away, and not that of its immediate neighbours with whom it is in the closest commercial contact?

The N.-W.F.P., Punjab, Baluchistan and Sind form one region. They have many characteristics in common. The possibilities of development of Group B can only be determined by a survey of the resources of the region as a whole. These possibilities may be great or small—we do not know what they are. But it can be stated with certainty that, in the absence of a Planning Centre, the units composing Group B have a great deal to gain by standing together, and everything to lose by falling apart. The Region, with its compact mass of territory and its own port, can plan, using as instru-

ments its own rate of exchange, credit policy and trade policy.

I am frankly unable to understand the Congress point of view in regard to grouping, nor the Congress tactics. The Congress suggested the inclusion of Planning, and of certain subjects without which no economic planning is possible, in the Central list. The suggestion, it is evident, was turned down by Mr. Jinnah, for if he had accepted it, the Cabinet Mission would have accepted it as a matter of course. The Cabinet Mission came to India to find a basis of common agreement between our major political parties, not to impose upon us a Centre of their own conception. Then the Congress suggested the inclusion of planning as an 'optional subject', which meant nothing. This suggestion was turned down by the Cabinet Mission. Then, at some subsequent stage in the negotiations, the Congress became convinced that a completely unitary form of government was neither suitable nor practicable, and recommended a 'middle course', and the grant of 'fullest autonomy' to the Units. That ended Central planning. Central planning is no longer a debatable issue, considering the matter in the light of the final recommendations of the Congress, and the allocation of subjects between the Centre and the Units made in the State paper of May 16. Word-twisting, quibbling and subterfuge cannot reintroduce planning as such in the Constitution, it does not matter how the Centre obtains its finances.

Central planning is dead, but Regional planning remains. The whole endeavour of the Congress

now seems to be directed towards wrecking Regional Planning. Congress delegates to the Constituent Assembly from Assam have been given a clear mandate for that purpose. The Congress expects the N.-W.F.P. to do its duty, as a Congress Province. Efforts will be made to induce Sind to 'opt out' of Group B. Suppose Grouping collapses completely. What happens then? Will a strong Planning Centre emerge out of the chaos? Nothing of the kind.

Planning on an all-India basis is impossible except by agreement between Muslims and non-Muslims. The collapse of Grouping will create anarchy—that is all.

CHAPTER VI

THE WAY OUT

In the *Constitutional Problem in India* Sir Reginald Coupland gives statistics of communal rioting and the loss of life caused thereby which are of extraordinary interest in connection with the study of Indian democracy, or of our constitutional progress.

"From 1922 onwards," he says, "the number of serious Hindu-Muslim riots rose steeply.¹" There were 11 Hindu-Muslim clashes in 1923, 18 in 1924, 16 in 1925, 35 in 1926 and 31 up to November 1927. During these five years 450 people were killed and at least 5,000 injured. In the fighting in Calcutta in the spring of 1926, which continued for more than a fortnight, 67 persons lost their lives and about 400 were injured. Order was finally restored by the use of troops.

The advent of the new order in 1935 was marked by serious trouble at Karachi. In the spring of 1936 processional music caused a riot in the United Provinces in which two people were killed and 159 injured. In the following autumn communal rioting began in Bombay on October 15, and continued intermittently till the beginning of December; 93 people were killed and 632 injured. In the spring of 1937 there were minor outbreaks

¹ *The Constitutional Problem in India* by Sir Reginald Coupland, Part V, p. 75.

in the United Provinces and Madras. Rioting in Bombay in the same year, due to processional music, caused the death of 4 persons, and injury to 65.

Between the beginning of October 1937 and the end of September 1939 there were 57 serious riots in the Congress Provinces as a whole—15 in Bihar, 14 in the United Provinces, 11 in the Central Provinces, 8 in Madras, 7 in Bombay, 1 in Orissa, and 1 in the North-West Frontier Province. The total number of casualties was nearly 1,700, including 130 dead.²

For the non-Congress provinces the number of serious riots during the same period was 28 (Punjab 17, Bengal 7, Assam 3, Sind 1). The total casualties were about 300, including 36 deaths.

The advent of freedom has been heralded by the biggest Hindu-Muslim riot in the history of British India. Three days' fighting is estimated to have caused about 3,000 deaths; the number of injured may exceed 10,000.³ There was looting and arson on an unprecedented scale. Mob-fury may be judged from the reports of stabbing of children, of persons having been thrown into the river from Howrah bridge and other unmentionable atrocities. The fire-brigade had to answer hundreds of calls during 24 hours, and it would not be surprising if many men, women and children were roasted alive when houses were set on fire.

² *Ibid.*, Part II, p. 131.

³ The highest estimate is that of the *Morning News*, no less than 7,000 killed and at least 20,000 injured. The exact number of death casualties will never be known.

Riots are supposed to be the work of hooligans. If so, the number of hooligans has been steadily increasing during the past 25 years

A Hindu-Muslim clash has three phases. First, the leaders start fighting with their tongues. Next, the press takes up the fight with the pen. Finally, the mob fights with the usual weapons—sticks, stones and knives. Petrol pumps provide material for lighting fires.

There is a fourth phase which has not yet begun, but which is inevitable if present conditions continue much longer. The infection will eventually spread to the Army.

All that must be very well known to our leaders. Why do they still fight?

Dr. Rajendra Prasad has an interesting theory to account for Hindu-Muslim antagonism. The seeds were sown by our rulers. The theory is neatly summarised in section 16 of Part II of *India Divided*, entitled '*The Communal Triangle*.' The policy of the East India Company 'was frankly based on the age-old maxim of divide and rule.' The Company set one prince against another. There were many annexations in the next period. "Musalmans felt keenly not only the loss of power and prestige but also of material prosperity." Then came the rebellion of 1857 which was followed by 'severe measures from which Musalmans suffered greatly.' Hindus had taken advantage of English education and Musalmans had lagged behind. Sir Syed Ahmad Khan founded the Aligarh College, to educate Musalmans. But a Principal of the College, Mr. Beck "took charge

not only of the students but practically also of Muslim politics.' Under Mr. Beck's influence, Sir Syed Ahmad Khan advised Musalmans to keep aloof from the Congress.

The partition of Bengal 'created, as was expected, bad blood' between Hindus and Musalmans of Bengal. Then, under the influence of another Principal of the Aligarh College, a deputation of Muslims, led by the Agha Khan, waited upon the Viceroy (Lord Minto) to urge the special claims of Musalmans. These claims were recognized and Muslims were granted representation in the Legislative Council through special electorates. "Thus the seed was sown which has now grown into a tree with deep roots and wide-spread branches, to the great detriment of India and the lasting benefit of Britain which has succeeded in thus blocking the way to Indian dependence." ⁴

This is not the whole story. Our rulers may indeed be held responsible for the existing situation, but not in the way suggested by Dr. Rajendra Prasad. The present state of affairs is not the outcome of the baneful influence on Indian politics of Mr. Beck or any other Principal of the Aligarh College. It is entirely the product of an experiment tried by the British Government—the introduction of democracy in India. Democracy started the race for power between Hindus and Musalmans; it embittered Hindu-Muslim relations, and with constitutional progress Hindu-Muslim tension increased.

⁴ *India Divided* by Dr. Rajendra Prasad, p. 156.

Students of economics are familiar with a rising curve which is used to illustrate the correlation between price and the amount of supply of a commodity coming out of a stock. As the price rises, supply increases. The correlation between rioting and constitutional advance is almost perfect. The two communities are now organised for fighting as never before. The number of deaths and other casualties in the recent Calcutta riot easily exceeds total casualties in all previous riots in Bengal, and probably the whole of India. And there will be more deadly fighting when the Army takes a hand in the game, as it may begin to do any day. Freedom has come ; it is worth fighting for. So far it was only a question of small instalments of freedom.

Democracy was deliberately introduced in India, when it was known that the conditions essential for the successful working of democratic institutions simply did not exist in our country. The following is a passage from the report of the Joint Committee on Indian Constitutional Reforms (1934) Vol. I, p. 11. The passage deserves to be read with attention.

"Parliamentary government, as it is understood in the United Kingdom, works by the interaction of four essential factors: the principle of majority rule ; the willingness of the minority for the time being to accept the decisions of the majority ; the existence of great political parties divided by broad issues of policy, rather than by sectional interests ; and, finally, the existence of a mobile body of public opinion, owing to permanent allegiance to

any party, and therefore able, by its instinctive reaction against extravagant movements on one side or the other, to keep the vessel on an even keel. In India none of these factors can be said to exist today."

Comments on these factors in the light of Indian conditions might easily fill a small volume. For reasons of space we shall limit our observations to the principle of majority rule.

This vicious principle explains the mixing up of religion with politics in our country. The biggest political party is that which has the largest number of supporters, or which has succeeded in arousing mass-consciousness in its favour. Now in our country the religious appeal is the only mass appeal. If you do not believe it, try to arouse mass-consciousness on the basis of a Plan in which 'created money' is used for large-scale industrialisation! The masses, even educated voters, would not understand what you were talking about. But get Hindu masses together and talk to them of *Ahimsa*, of *Satyagraha*, of the simple life, and you will touch very, very deep, and very, very ancient chords in their hearts. Get Muslim masses together and talk to them of Islam and Islamic ideals, and they will listen to you. Not communal electorates but democracy and majority rule are responsible for the growing communal tension which has brought India to the verge of organised, sanguinary civil war.

In a press statement dated Poona, February 26, Mahatma Gandhi said: "The millions of India would not have been awakened but for the open,

unarmed struggle." The credit for awakening the millions of India, Hindu as well as Muslim, belongs wholly to Mahatma Gandhi. The unarmed struggle, based on *Ahimsa*, *Satyagraha* and 'Charkha economics' directly awakened the Hindus. The lesson of Mahatma Gandhi's movement was not lost on the Muslim leaders, and they adopted precisely the same tactics to awaken the Muslims. The appeal of the Muslim League to Muslim is entirely a religious appeal. The Muslim masses do not understand *Ahimsa* as the Hindu does instinctively, but they know Islam and they have responded magnificently to the call of Islam. Take the Punjab as an example. The Unionist Party used to be the biggest political party, enjoying the support of over 100 members of the Punjab Assembly. Where is the Unionist Party today? It is a rump. It is practically dead.

Who does not know that fear of Divine displeasure secured votes for the Muslim League at the last elections? Spiritual threats were openly held out to Muslims who voted against the League candidates. Such is our democracy. But Mahatma Gandhi was the first to spiritualise politics. He showed the way and the Muslim League followed. Mahatma Gandhi beat the drum of *Ahimsa*, and the Muslim League that of Islam. The object in both cases was to capture power.

The Muslim League was established in 1908, but not with Pakistan as its objective. Little was heard of Pakistan before 1930, and Pakistan did not become a real issue till after 1937. Democracy was literally interpreted by the Congress as the

divine right of the majority. Congress insistence on its divine right to rule forced Mr. Jinnah and the Muslim League to adopt Pakistan as their slogan. Congress action in 1937 so enormously strengthened Mr. Jinnah and the League that a brief reference to it would not be out of place.

On taking office in 1937 the Congress leaders adopted the policy of 'no coalitions', and pure Congress Governments were formed in the Congress Provinces. In the United Provinces, out of the 64 seats reserved for the Muslims, chosen by separate Muslim electorates, the Independent Muslims in 1937 won 28, the League 26, the National Agricultural Party led by the Nawab of Chhatari 9 and the Congress 1. "It was generally believed," says the Sapru Report, "that when the Congress formed the Ministry, they would include in it two prominent members of the League. Unfortunately, when the Ministry was formed the League was not represented on it, because of disagreement on the terms on which the League could come in."⁵ These terms are quoted in full in the Sapru Report⁶ and also in Sir Reginald Coupland's '*The Constitutional Problem in India*'.⁷ They were as follows.

"The Moslem League group in the U. P. Legislature shall cease to function as a separate group.

"The existing members of the Moslem League Party in the U. P. Assembly shall become part of

⁵ The Sapru Report, pp. 149-150.

⁶ *Ibid.*, p. 150.

⁷ Part II, p. 111.

the Congress Party.....

"The policy laid down by the Congress Working Committee.....shall be faithfully carried out by all members of the Congress Party, including these members.

"The Moslem League Parliamentary Board in the United Provinces will be dissolved, and no candidate will thereafter be set up by the said Board at any by-election."

These terms were rejected, and they were bound to be rejected, for they demanded unconditional surrender on the part of the League. "The omission of League Muslims from the Ministry," says the Sapru Report, "embittered the whole subsequent history of Hindu-Muslim relations throughout India."⁸

Dr Rajendra Prasad in his book *'India Divided'* defends this indefensible Congress policy. "The Congress decided to stick to the well-known and well-understood constitutional principle of having homogeneous Ministries composed of its own members among whom Musalmans were, of course, included. It accordingly chose Muslim Ministers from among those who were members of the Congress Party."⁹ Such, indeed, is the meaning of majority rule. Dr. Rajendra Prasad's constitutional position is unassailable. But that does not end the matter. If the fundamental principle of Anglo-American democracy is such as to create an unbridgable gulf between Hindus and Musalmans, which ultimately means partition, or 'a weak Centre

⁸ *Sapru Report*, p. 150.

or no Centre', and consequently no planning on an all-India basis, the time has come to start thinking of a solution on different lines.

CONGRESS MISTAKES

The situation in our country is grave. The gruesome Calcutta tragedy may be repeated anywhere in India. The tiniest spark may start a general conflagration.

In Congress circles the entire blame for the existing situation will be laid at the door of the League. League intransigence, it is generally said, prevents a Hindu-Muslim settlement. I am no admirer of Muslim tactics, but the Congress cannot be absolved of all responsibility for what has happened, even in Bengal, and what is inevitably going to happen elsewhere in India if there is no improvement in Hindu-Muslim relations. The Congress has made mistakes and the whole country is reaping the consequences.

1. The attempt to spiritualise politics was a mistake. That is how the struggle for 'independence' began, reinforced by the promptings of Mahatma Gandhi's 'inner voice' and 'fasts unto death'.

2. The attempt to crush the League in 1937 was a mistake. It literally put Pakistan 'on the map'.

3. Having conceded the substance of Pakistan by the one hand, the attempt of the Congress to take it away by the other, through disingenuous *interpretations of the Cabinet Mission's scheme*, was a mistake. This is the genesis of the direct

action threat.

These mistakes have prepared the ground for a fratricidal war on a large scale. The situation is fraught with the utmost danger. Pandit Nehru has taken charge of the Interim Government and he has publicly said that his Government will go ahead, irrespective of the League's threat of direct action. He has decided to meet the challenge of the League, which means that either the Government 'goes under' or the League is forced to do so. British troops helped in the restoration of order in Calcutta. If wide-spread disturbances occur, reliance will have to be placed on British bayonets for protecting the lives and property of citizens in the disturbed areas. Pandit Nehru's Government may thus survive the League threat, but is that any solution of the Indian problem? Is this 'independence'?

THE WAY OUT

There is an easy and certain way out of the muddle. But it is not a democratic way.

In August 1942 the Congress, for the sake of independence, made an offer to League to assume all power, promising its willing co-operation. This offer was made by Maulana Azad, and it was repeated by Mahatma Gandhi.¹⁰ Dr. Rajendra

¹⁰ Coupland, Part II, p. 299:—

"Writing on August 2, Mr. Gandhi quoted with approval a statement of Maulana Azad that 'he had no objection to Britain handing over power to the Muslim League or any other party provided it was real independence', since, as he pointed out, no single party could function properly without the co-operation of other parties. Finally,

Prasad also mentions it in his *India Divided*.¹¹

The offer, in plain words, meant that, for the sake of independence, the Congress was prepared to pass a self-denying ordinance.

Freedom is now almost within our grasp. If the Muslims agree, we can still have a Planning Centre. If the Muslims do not agree, the Balkanisation of the economic structure of free India cannot be avoided.

For the sake of freedom and a Planning Centre, the Congress may, for a second time, ask the League to assume all real power. The Muslims object to a Planning Centre on account of their fear that it will be dominated by a Hindu majority. This fear will be entirely removed if Mr Jinnah is asked

a few hours before his arrest, he wrote to a Moslem business man in Bombay :

' Provided the Muslim League co-operated fully with the Congress demand for immediate independence without the slightest reservation, subject of course to the proviso that independent India will permit the operations of the Allied armies in order to check Axis aggression and thus help both China and Russia, the Congress will have no objection to the British Government transferring all the powers it to-day exercises to the Muslim League on behalf of the whole of India. And the Congress will not only not obstruct any government that the Muslim League may form on behalf of the people, but will even join the government in running the machinery of the Free State '."

¹¹ Dr. Rajendra Prasad says (loc. cit. p 153) :

"The Cripps Mission having failed, the All-India Congress Committee at its meeting held in Bombay from 7th to 9th August, 1942, passed its memorable resolution which has come to be known as the ' Quit India ' resolution. On the eve of the meeting, as on various previous occasions, declarations had been made on behalf of the Congress that it did not want power for itself but for the people of India and that it would be content if the Muslim League took office with real power."

to plan, with a free hand in choosing his colleagues.

Planning is a technical job. It cannot be undertaken on the basis of communal proportions, 5:5:2, or 6:5:3, or any other thing equally absurd. A planning Cabinet must be of one mind. It must have a unified, integrated economic policy. A planning Cabinet, constructed on the basis of communal proportions, will never be able to work together as a team.

Mr. Jinnah may make mistakes. But honest mistakes in planning can never produce a worse situation than the Balkanisation of our economic structure and looting, murder and arson in all parts of India.

If the offer is made and accepted, the Muslim League will participate in the deliberations of the Constituent Assembly. By separate majority of votes, Muslims and Non-Muslims can alter the allocation of subjects between the Centre and the Units, and thus establish a Government of a completely unitary type at the Centre. Central and Provincial Planning Commissions or Committees can be appointed, and the task of rebuilding our economic life can begin in an atmosphere of general peace, good-will, and mutual co-operation. It may be emphasized that economic planning will impose sacrifices on the consumer, for a short period. Planning can never be successful in an atmosphere of suspicion and hostility. All talk of planning under existing conditions is pure moonshine.

This is the way out of the muddle, and there is no other way. Will the Congress take it?

There are three obstacles :—

1. Congress thinking is still dominated by the divine right of the majority. But planning and democracy do not go together.¹²

2. Mahatma Gandhi does not believe in economic planning. Week after week the flood of ante-diluvian wisdom continues to pour forth from Wardha. The main themes are two: the *charkha*, which is to reconstruct our national economy, and *Ahimsa*, which is more powerful than the atomic

¹² Can planning be democratic?

Pt. Jawahar Lal Nehru's conception of the Union Centre is well known. It is a planning Centre.

Pt. Nehru is also a lover of Anglo-American brand of democracy.

How does Pt. Nehru, or any Congressman who believes in planning, reconcile planning with democracy in the accepted sense of the word?

The form of government has the most important relation to the form of economy. J. S. Mill was the greatest advocate of liberty and democracy, but he was also the greatest advocate of *laissez faire*. Planning is the complete negation of *laissez faire*. Only muddled thinking can suggest that a government which runs a planned economy may be organised on democratic principles.

Can Planning be Democratic? is the title of a collection of essays written for the Fabian Society by several men and women of note (London, 1944). Discussing 'Freedom and Planning' Barbara Wootton says :

"I now come to political freedoms. Once more we must begin by facing the issues. It has often been said that you cannot have effective economic planning if there is more than one political party. And once more example is no comfort, for the only example that we have of comprehensive economic planning is a one-party State. Is the abolition of party politics necessary for economic planning? I do not think it is. But those who hold a different opinion are, nevertheless, posing a real problem. For we cannot, by definition, make a continuous long-term plan for, say, five years, and still change our minds every six months. If the existence of political parties does mean the right to change our minds about everything every six months, then I am afraid it is incompatible with long-term planning" (p. 49).

Example is no comfort for economic history furnishes only two

bomb.¹³ Mahatma Gandhi will never be persuaded to think otherwise.

3. It will be easier for a camel to pass through

examples of comprehensive economic planning, in Russia and in Germany. Nazi Germany was not democratic. Is Russia a democracy?

In a Moscow cable dated March 10, 1946, published in the *Tribune* of Lahore dated March 11, a Soviet publicist, David Zeslawsky, admitted that England 'had some right to call itself a democracy', but characterised British democracy as 'a most limited democracy'. He condemned the Anglo-American brand of democracy as 'old and out-moded' and claimed that Soviet democracy was young and vital, and that 'it was the only true democracy'.

Some people would say that Soviet democracy was no democracy at all but a ruthless dictatorship!

Let us note the difference between the Soviet and British brands of democracy. The Soviet system has some resemblance to the British Parliamentary system but the resemblance is superficial, and the differences are of fundamental character. The Supreme Soviet is not in permanent session, and it is not a legislative body in the sense in which the British House of Commons is. Secondly, Russia has no party system and no Opposition. There was once opposition even in the Soviet Union. Every one in the world knows its fate. Every one in the world also knows how opposition would be dealt with by Stalin if it again reared its ugly head.

In the absence of the party system there can be no contested elections in the Soviet Union as in Britain, or even in India.

No planning is possible under a two-party system of government if the principles of planning are not fully accepted by both the parties. Let us take the British Parliament as an example. Mr. Attlee, the socialist Premier, believes in State enterprise. Mr. Churchill is an upholder of private enterprise. Mr. Attlee, when in office, introduces a plan of economic development. Mr. Churchill, when he returns to power, scraps the plan. Mr. Attlee nationalizes the Bank of England and certain key industries. Mr. Churchill returns them to private management. Under these conditions planning will assume the character of 'pure profits' in economic theory—it will be constantly appearing and constantly disappearing! Before planning can be undertaken in Britain, the British Parliamentary system must change. The Opposition must cease to be the Opposition of British tradition.

¹³ " POLITICAL GUARD AT MR. GANDHI'S RESIDENCE

" New Delhi, August 27—Special police and other guards have been posted at the residence of Mahatma Gandhi, Maulana Azad and some other Congress leaders in New Delhi—A.F.I."

(*The Civil & Military Gazette*, Lahore).

the eye of a needle than for the majority of Congressmen, who are attracted by the loaves and fishes of office, to pass a self-denying ordinance.

The offer to the Muslim League of full real power, which will give us the economic structure for planning, is not likely to be made.

CONGRESS SOCIALISTS

In these circumstances, the duty of all those who are not interested in the sharing of power, who are not attracted by religious slogans, or programmes which derive their inspiration from religion, and who object to the Balkanisation of India, is clear. I am referring particularly to Congress socialists. What useful purpose is being served by their continuing to be members of the Congress?

As one interested in planning I have, perhaps, a right to talk to Congress socialists. We may differ in regard to nationalisation of land and capital or on other questions, *i.e.*, surplus value, class-war and the world revolution. But there is no socialist who does not believe in planning.

What is the position of socialists in the Congress? Socialists go about with the symbol of the *charkha* on their heads, *i.e.*, the Gandhi cap. Are they followers of Mahatma Gandhi? Do they sincerely and truly believe that the *charkha* can defend a country's independence or maintain law and order? Do they sincerely and truly believe in Mahatma Gandhi's village republics? I know that to put such questions to socialists is to insult

their intelligence. But then, if they have no faith in Mahatma Gandhi's creed, why are they Congress socialists ?

Very probably socialists have entered the Congress with the same object for which M. N. Roy and the communists entered it—to capture Congress machinery. The Congress knew how to deal with M. N. Roy and the communists. Where are they to-day ? Not in the Congress.

All idea of capturing Congress machinery, by burrowing tactics, is pure delusion. In the first place, such tactics are dishonourable. In the second place, Mahatma Gandhi, as Congress socialists will find, if they have not found it already, is a hard nut to crack.

Subhas Chandra Bose thought of capturing Congress machinery. He was routed by Mahatma Gandhi.

Subhas stood for re-election as Congress President in January 1939, and was actually elected by a majority of 199 out of a total vote of 2,951, defeating the 'official' candidate, Dr. Pattabi Sitaramayya. Then things began to happen. In February all members of the Congress Working Committee, except two, resigned. Subhas was called upon to follow Mahatma Gandhi's wishes in the choice of members of the Working Committee. He refused, and finally resigned on April 29. Next day Dr. Rajendra Prasad was elected President, and on May 1, he reinstated the twelve stalwarts who had declined to serve under Subhas. Later Subhas was disqualified for grave indiscipline (he had founded the 'Forward Bloc') from continuing to be President

of the Bengal Provincial Committee for three years. The disqualifying resolution was drafted by Mahatma Gandhi.

When the war broke out, the Congress adopted resolutions which were works of fine art. The leaders of the Congress did not know what the war was being fought for! Subhas knew it, and also that the great spinners' association, otherwise known as the Indian National Congress, did not mean business. He cleared out of the country to become the *Neta* of the first Indian National Army. He struck a blow for freedom, if he did nothing else. He knew how to unite Muslims, Hindus and Sikhs in the common fight for freedom, if he knew nothing else.

The moral of this story is that when Subhas, having been duly elected President, could not keep his office against the will and pleasure of Mahatma Gandhi, no Congress socialist can hope to do so. Assuming Jai Prakash Narain has such ambitions, he must first subscribe to Mahatma Gandhi's creed. For one thing, when he is next arrested and locked up in jail, he must agree to stay there, and not break loose to create trouble outside. Is he prepared to give that undertaking?

Congress socialism does not make sense. It is a contradiction in terms. If they are honest, Congress socialists must leave the Congress, and that immediately.

The socialists are not a power in the country to-day. But, as a political party, they will have a much better start than, for example, the British Labour Party. There was a time when the British

Labour Party, which to-day guides the destinies of a vast Empire in its own right, existed only as a 'Lib-Lab' movement. Even in 1924, when the first Labour Cabinet was formed, the Labour Party had a support which accounted for less than a third of the membership of the House of Commons. Actually Labour had 151 seats, or its representation amounted to 24·6% of the total number of seats. The second Labour Government commanded 287 seats with a representation of 46·6 per cent., but it foundered in the economic storm of 1931. It was in the general election of 1945 that British Labour won a resounding victory, with an absolute majority in the House of Commons (394 seats, with a representation of 61·6 per cent.)

Labour's victory in Britain has a lesson for our socialists. Tories, as is well-known, counted on Mr. Winston Churchill's great personal prestige to win the general election by a heavy majority, but, as the day of voting approached, they possibly realised that they had been bragging too much. During the final ten days Mr. Churchill was sent on a 'circus tour' through the manufacturing districts. The Man Who Won the War and his cigar were greeted with applause everywhere, but "those who cheered and threw caps in the air went home to vote against him."¹⁴ Why? The Man Who Won the War had no programme for peace. The Labour Party had a programme. Tory propaganda was barren. That is why Labour won.

The situation in India is not dissimilar. Let us, for the sake of argument, assume that *Charkha*

¹⁴ *The General Election, 1945, and After*, by Margaret Cole, p. 14.

and *Ahimsa* have led India to Independence (which *Charkha* and *Ahimsa* have certainly *not* done). What is Mahatma Gandhi's programme for peace? There is no programme. The centre, recommended to the Cabinet Mission by the Congress, and of which Mahatma Gandhi is proud, can do nothing in the way of organising production or raising the general level of economic well-being. Having accepted the Cabinet Mission's scheme 'in its entirety,' the Congress stands for the economic partition of India. The attempt to reinvigorate the Centre through word-twisting is futile. The attempt to break up the Groups, if successful, would spell the economic ruin of such provinces as the N.-W.F.P. Apart from all this the assumption of power by the Congress at the Centre, even at the risk of disrupting the whole political and economic life of India, provides no solution of any problem and offers no constructive programme to the country. It is the grabbing of power for its own sake, with the support of British bayonets.

Placing the political and economic unity of India in the forefront of their programme, with Central planning as an instrument for creating 'full employment', the socialists may begin their campaign. They will have to make it clear, at the very outset, in unequivocal terms, that they do not want power for themselves; that their goal is economic planning on an All-India basis; that economic planning is inconsistent with a party system of government; that they do not care for communal proportions; and that, if the Muslim League will agree to plan, they will give it their full and un-

conditional support. Socialist propaganda might thus bring a real political party into existence, which any one may join. No such party exists in our country to-day.

SURVIVAL VALUE OF ECONOMIC STRUCTURES

In this final section an attempt may be made to assess the survival value of economic structures of free India which we have considered in this book.

By 'survival' in this connection we mean the maintenance of our independence as a single political unit.

What does the reader think of war from the ethical stand-point? War is a part of the machinery of evolution. War is a form of the universal struggle for existence in the international sphere.

The atomic bomb finally ended Japanese resistance. A single atomic bomb will kill 50,000 people outright, besides causing injury to two or three times that number.

It is often said that Nature is a moral. But war is immoral. No war on a large scale has ever been won by strict adherence to the canons of morality. Fighting and destruction are of the very essence of the evolutionary process.

Human beings possess many social virtues, love, self-sacrifice, tolerance, friendship, mutual assistance and co-operation. They are, as biologists *call them, intra-tribal virtues*. In the process of evolution humanity has passed through several stages, the tribal stage being one of the earliest.

Social organisation in Rig Vedic times was largely tribal, and even today the tribal organisation prevails among less advanced peoples.

A tribe, in order to survive in the struggle for existence, has to possess a dual set of virtues in a high degree—virtues promoting unity among its members, and militant virtues in dealing with the foreigner. The militant virtues may run counter to the dictates of morality. Truth, as is well-known, is the first casualty when war breaks out. Trickery and deceit are widely practised in war. Even the mass slaughter of innocents, as by means of the atomic bomb, has its justification in war. It wins the war.

Two world wars have not brought abiding peace; in fact, at the end of the second world war, abiding peace seems to be more distant than ever before.

How long do we propose to depend on British arms for Indian defence? At present, we are not only incapable of defending India against foreign aggression without foreign assistance, but rely on British troops to maintain law and order within the country.

All talk of 'independence' and 'quit India' is entirely nonsensical under present conditions.

An economic structure, which is worth having, must possess a high survival value in the sense explained. India is a unit in the international struggle for existence. No world organisation can end this struggle.¹⁵ Today this struggle is fiercer

¹⁵ A whole chapter was devoted to 'The Struggle for Existence' in the present writer's *Marxism is Dead*, completed before the outbreak of

than ever before.

An economic structure, based on the individual as the unit, has a survival value of zero. In

the second world war (June 1939). The discussion begins thus :

" Like Marxian Socialism ' Indian Socialism ' is also founded on a dialectic. It is not a dialectic of my own, but that of Malthus and Darwin, or the dialectic of the universal struggle for existence.

The dialectic of the struggle for existence is essentially different from the dialectic of the class-struggle. ' Indian Socialism,' recognizing the struggle for existence, must absolutely and utterly repudiate the whole ideology arising out of the conversion of money into capital, or the ridiculous passage of quantity into quality, and the dictatorship of the proletariat ending in the ' withering away ' of the State, or the still more ridiculous negation of the negation.

The struggle for existence explains many a riddle.

It explains why Russia, claiming to follow Marx, has forgotten the world revolution.

It explains why there is no withering away of the State in Russia, in spite of the Russian claim that socialism has been achieved.

It explains the rise of Fascism, and why Fascist countries want war, when France wants Peace, when Britain wants Peace, and when the Soviet Union wants nothing but Peace ! Peace !! Peace !!!

It explains why the idea of a world socialist economy will never take practical shape, although all the contradictions of capitalism may be resolved in such an economy.

It explains why there will never be an international civil war, why workers of the world will never unite, why British and French labour will fight shoulder to shoulder with their bourgeoisies in defence of their Empires, and why even the Soviet Government will fight to the last rather than give up a foot of their territory.

It explains why the non-violence of Mahatma Gandhi, as that of Lenin, is a joke.

It explains all the great wars of the past that have made history, and the present political situation which is driving Europe toward war.

The struggle for existence finally explains Imperialism both ancient and modern.

What is meant by the struggle for existence ?

It is a biological conception.

There is incessant struggle in nature and this struggle, in the case of the animal kingdom, is very often of an extremely violent and deadly character. Its chief result is the elimination of the weak and survival of the fittest.

The organism fittest to survive is the organism which, in view of the conditions under which the struggle for existence is carried on, possesses

the process of human evolution, the individual is of no account whatsoever. The whole community is the unit. When the community goes under, the individual goes under. One may learn from the fate of Germany. Hitler created a single State of German-speaking peoples. The Allies broke up this State. The Germans have not been exterminated, but individual Germans, who continue to live, do so on sufferance. They might as well be all dead.

What is the survival value of Mahatma Gandhi's village republics? He thinks they will be able to defend their independence against the whole world. Actually, relying on God and *Ahimsa*, they could not protect themselves even against the attacks of village hooligans. Village republics have no place in the process of evolution today. Even if they are created, they will disappear almost in the instant of their creation.

The economic structure of free India, as envisaged in the Cabinet Mission's Scheme, has a weak survival value. Why?

We have indeed a Centre responsible for Defence, but it is a weak Centre. The weaker the Centre, the lower the survival value.

Modern defence is costly, and it is inter-

the adaptations most favourable to victory. These adaptations may consist in the sharpest teeth and claws or the greatest cunning."

The book naturally failed to please Indian communists. A reviewer writing in *The New Age* for August 1939, said:

"Any criticism of Russia, however, will do for this writer. 'The Soviet Government will fight to the last rather than give up a foot of their territory'. This makes them as wicked as any one else. It is all the struggle for existence."

woven with the entire fabric of the economic life of a country. It presupposes a high degree of economic self-sufficiency, the existence of a powerful, heavy industry, a high level of national income and a high tax-bearing capacity. Now our Centre is entitled to demand from the Units just such finances as are adequate for its purposes. It cannot, as we have seen, frame an economic policy for the whole of India ; all residuary powers have been vested in the Units. Further, since the Cabinet Mission's proposals involve an economic partition of India, the level of income and prosperity in the Units must be lower than what it can be under an all-India planning Centre. The economic poverty of the Units must be reflected in the poverty of the Centre.

The question may also be considered from another point of view. Would the economic partition of India be a unifying or disintegrating factor in the political life of the country ? It is generally assumed that the creation of Units enjoying 'utmost autonomy' would make for communal peace and harmony. The actual result may be just the contrary. The 'utmost autonomy' of the units, as we have seen, would lead to the rise of independent economies with independent levels of wages and incomes. We have also seen that trade-barriers would have to be erected by the Units, or the Groups, to enforce their economic policies. There will be continual economic friction between the Units or the Groups, which might lead to political disorders. Do not forget that Muslims live in 'predominantly Hindu

Provinces and Hindus and Sikhs in predominantly Muslim Provinces. Majority rule has some meaning where party organisation is based on differences on questions of policy, as in the United Kingdom ; it is entirely without sense or reason when a religious community is permanently placed in power over other religious communities on the ground of its numerical superiority. There is the same objection to placing Muslims under Hindu domination in Group A, as to placing Hindus and Sikhs under Muslim domination in Groups B and C. The sources of communal friction are not removed ; they are, on the other hand, intensified.

The survival value of the economic structure of free India as proposed by the Cabinet Mission, is not much more than that of village republics. Taking a long view of the matter, under the proposed scheme we shall develop tendencies and virtues which would make an end of Indian independence.

The Constituent Assembly has yet to evolve a constitution for India ; the Interim Government is only a kind of 'caretaker' government. The choice of the Centre still belongs to us. Why should we not choose a Centre, when we have power to do so, which will integrate the whole of our economic life with the requirements of biological survival, a Centre with the highest survival value ? It is not merely a question of defence and armaments, but a question of utilization of the varied resources of the country, in the form of men and material, to raise national income and prosperity to the highest possible level ; a question

of ending class-conflicts by a just distribution of wealth ; a question of removing economic uncertainty by stabilizing prices and earnings of factors of production at desired levels ; a question of so ordering and disciplining economic life that the whole country marches forward like an Army under one command.

I hear the reader exclaim : 'But this is totalitarianism'. Quite so. Russian economy is a totalitarian economy precisely in the same sense. Anglo-American economy which won the war was also a totalitarian economy. When war comes, individual liberty vanishes, economic freedom disappears, and the State, as representing the community, assumes all power. Such are the requirements of biological survival. In democratic countries, like the United Kingdom and the United States, the people are so well-disciplined that they willingly surrender individual liberty, whenever called upon to do so, for the common good of all. What is the discipline that we know in India ? Only religious discipline which, under democratic influences, has become a disruptive force. Religious discipline in India has no survival value, but an extinction value.

A new economy, a new discipline, and a Centre strong enough to establish the one and to enforce the other—this sums up our idea of the economic structure of free India.

